INSURANCE CONTINUING EDUCATION

4-HOUR ANNUITY TRAINING

THIRD EDITION

Convenient Self-Study Education in 3 EASY STEPS:

1. **READ** this book.
2. **ENROLL** online, by phone, fax, or mail.
3. **COMPLETE** the open-book exam.

Earn 4 Hours for Only $29

STATE-APPROVED CONTINUING EDUCATION
for
CALIFORNIA INSURANCE LICENSEES

- 4 Credit Hours, Approved For Life Insurance Licensees.
- All Life agents who sell annuities in California must complete a specific continuing education program before renewing.
- This course is approved by the Department of Insurance to satisfy the requirement.

BOOKMARKEDUCATION

www.BookmarkEducation.com

(800) 716-4113

FREQUENTLY ASKED QUESTIONS

Is training required in order for me to sell annuities in California?
Yes. In addition to being properly licensed, you must complete eight hours of California-specific annuity training prior to soliciting the sale of any annuity products.

I have completed the initial training requirement (above). Should I complete annuity training as part of my continuing education requirement?
You must complete an additional 4-hour training course during any 2-year license renewal period in which you have attempted to sell annuities. However, if you have not attempted to sell annuities during your current 2-year licensing period, you do not need to complete additional annuity training.

Can any California insurance licensee receive continuing education credit for an annuity course?

No. In order to earn credit for an annuity course, you must have a life insurance license.

Is your school approved by the California Department of Insurance?

Yes. Bookmark Education is approved as a continuing education provider by the California Department of Insurance (Provider #284588). Course approval numbers are provided on the copyright page.

Do I need to enroll in a course before I can take the exam?

Yes. In order to access an exam, you must review the course material and enroll with our school. Quick and easy enrollment is available at our website, BookmarkEducation.com. You may also call us or enroll via fax or mail by using the form included in this book.

Once I've enrolled, how can I complete my exam?

Upon enrolling, you will receive a username and password, which can be used to take your exam online. Exams submitted online will be graded instantly. Paper exams are also available.

How much time do I have to complete my courses?

Enrolled students are permitted six months from the date of enrollment to complete a Bookmark Education continuing education course. If a student has not successfully completed a course's final exam within the six-month timeframe, the student will not be permitted to obtain credit without re-enrolling in the course.

Will you report my course completions to the California Department of Insurance?

Yes. We will report successful course completions to the California Department of Insurance within two business days of receiving your completed exam. The completion date that is reported to the state will be identical to the date when you successfully completed the course exam.

What is the passing score required to earn credit for each of the courses in this book?

The state of California requires a passing score of at least 70%. Most students pass on the first attempt. However, your enrollment includes four attempts to pass the exam.

How can I keep records of courses I have completed with your school?

Upon successful course completion, we will provide you with a Certificate of Completion for your records.

PLEASE CALL US WITH ANY ADDITIONAL QUESTIONS!

BOOKMARKEDUCATION

BookmarkEducation.com

(800) 716-4113

4-HOUR ANNUITY TRAINING

THIRD EDITION

Continuing Education
for California Insurance Professionals

BOOKMARKEDUCATION

BookmarkEducation.com

4-HOUR ANNUITY TRAINING
THIRD EDITION

CALIFORNIA APPROVED COURSE LICENSE NUMBER 319053

Printed in the United States of America.

▪P2▪

All inquiries should be addressed to:

Bookmark Education
6203 W. Howard Street
Niles, IL 60714
(800) 716-4113
BookmarkEducation.com

TABLE OF CONTENTS

Introduction

An annuity is a long-term contractual arrangement in which someone gives money to an insurance company and is expected to get it back in either a lump sum (plus interest) or a series of regularly scheduled payments. Traditionally, the purpose of an annuity has been to provide someone with a permanent, regular stream of income that cannot be outlived. For example, a senior citizen might purchase an annuity with a lump sum of $100,000 in exchange for the insurer's promise to pay the person $1,000 a month for the rest of his or her life. For people who have already made maximum contributions to a retirement plan, an annuity can also be used to park large sums of money and earn tax-deferred interest.

In either case, as life insurance products, annuities also contain some kind of death benefit that can be paid to an owner's chosen beneficiaries. (The circumstances under which the death benefit is payable will depend on the contractual language.)

Particularly since the 1980s, changes in employer-sponsored retirement plans have caused annuity sales to surge. Members of previous generations often worked for only one or two businesses over the course of their career and were rewarded with guaranteed pension benefits. But over the past few decades, those guarantees have become much harder to find. If a business has a retirement plan today, it's usually one that demands a more active role from its participants. Without at least a basic understanding of the financial markets, workers aren't likely to see the desired level of growth in their retirement accounts.

Although annuities don't remove all the uncertainty and personal responsibility from retirement planning, they can ensure that seniors receive at least some dependable income that can be layered on top of Social Security benefits. This may explain why many people consider an annuity to be the reverse of a life insurance policy. Whereas life insurance financially supports beneficiaries if someone dies too soon, an annuity can financially support someone if he or she lives too long and runs out of savings.

There are annuities to attract conservative investors and annuities for people who are willing to take more risks. Products called "fixed annuities" guarantee a return of the money that investors put into them and will often promise higher interest rates than certificates of deposit (CDs). Products called "variable annuities" are less likely to guarantee a full return of a person's initial investment, but they have the power to produce higher returns. Newer products called "indexed annuities" are like hybrids of fixed and variable annuities and might allow for relatively high returns with more guarantees.

Long-term investors and long-term savers are also sometimes won over by an annuity's tax features. Most annuities go through an "accumulation period," during which the value of an annuity can grow on a tax-deferred basis and earn a compounded amount of interest. So, in simplistic terms, no one pays taxes on the money until it comes out of the account, and interest can be credited to *both* the amount invested (known as the "principal") and any previously earned interest. Consumers receive these positive benefits in exchange for less liquidity than they might find in CDs or mutual funds.

Basic Kinds of Annuities

Almost every annuity can be categorized in at least two different ways, depending on how the insurer invests the buyer's premium and when the owner expects to dip into the annuity for payments. In regard to investment of premiums, an annuity can be either "fixed" or "variable." In regard to the timing of payments to the owner, an annuity can be either “deferred” or “immediate.” Most annuities are fixed and deferred, but we will examine all of the main combinations in this course and review the ways in which each type of annuity might impact a consumer.

Fixed and Variable Annuities

People who care more about saving money than engaging in high-risk, high-return ventures tend to prefer fixed annuities over variable annuities because fixed contracts contain more guarantees. The traditional fixed annuity guarantees a return of all money given to the insurance company plus a guaranteed amount of compounded interest, such 3 percent or 4 percent. Regardless of the minimum interest-rate guarantee for a fixed annuity, the amount of guaranteed interest might be higher during the first few years of a contract’s term.

The risk to the fixed annuity purchaser is minimal because the insurance company invests the owner’s premiums in conservative bonds and government securities. The consumer is responsible for picking the right contract and insurer, while the insurer is responsible for investing the principal in a manner that will satisfy the contract’s guarantees. As long as the insurance company does not become insolvent, the annuity owner’s money will be safe. However, the owner must accept the possibility that the guaranteed interest from a fixed annuity will not keep up with inflation.

Variable annuities appeal to investors who are willing to put some of their money at risk in exchange for potentially higher returns. The owner typically shoulders the responsibility of investing his or her money in one or several “subaccounts” (which are similar to mutual funds), and the annuity’s account balance will go up or down depending on how those subaccounts perform.

In addition to absorbing market risks, owners of variable annuities will usually be charged account management fees on an annual basis. Most variable annuities contain some basic guarantees, such as a guarantee that the owner’s annuity will never be worth less than the original principal amount, but most of these guarantees are only available if buyers are willing to pay extra fees that reduce their potential return.

We have only discussed the basics of these two types of annuities. More details about fixed and variable annuities can be found in later chapters of this course.

Deferred and Immediate Annuities

The annuity shopper’s choice between an immediate annuity and a deferred annuity will depend on when the person wants to start receiving payments from the insurance company. This is true regardless of whether the annuity is fixed or variable. Let’s go over the options.

Deferred Annuities

A “deferred annuity” is often favored by individuals who don’t need consistent, additional income at the time of purchase but envision needing it in the future. When people buy a deferred annuity, their goal at that moment is to watch their principal expand for several years. Presumably at a much later date, they’ll cash in their deferred annuity for a lump-sum payout or for divided payouts that will be disbursed throughout their remaining lifetime. Often upon the conclusion of a deferred annuity’s contract term, the money in an existing deferred annuity is transferred to a new deferred annuity.

Between the time it's purchased and the time payments begin, a deferred annuity goes through an accumulation period. During the accumulation period, the owner's account is expected to grow without negatively affecting the person's tax situation.

Immediate Annuities

An "immediate annuity" creates an income stream for the owner soon after the sale date. In general, the owner starts receiving payouts within one year of entering into the contract.

People who buy immediate annuities might care less about growing their principal and more about maintaining their current income level for as long as possible. An immediate annuity can help them achieve their goals by giving them payouts on a monthly, annual or other set schedule rather than in a lump sum.

Immediate annuities don't go through a traditional accumulation period because money is being taken out of them at the same time that the account would otherwise be growing in value. Also, opportunities for tax deferral with an immediate annuity are relatively minimal because taxation on an annuity begins when money is taken out of the owner's account. Since they are generally meant to serve as a source of immediate cash payments and not as a long-term savings vehicle, immediate annuities are also known as "income annuities."

The amount of money a person receives regularly from an immediate annuity will be determined by the principal, the person's life expectancy and the fixed or variable status of the annuity. With all other factors being equal, a larger principal will translate to bigger immediate payouts because the insurance company will have more money to give out in the first place. But because annuities are designed as supplementary sources of income that last a lifetime, immediate payouts offered to a younger person can be lower than those offered to an older person. This can be true even if the younger individual pays more principal to the insurance company.

Most immediate annuities are fixed and give budget-conscious owners the security of knowing that their scheduled payouts will not dip below a guaranteed minimum dollar amount. However, because immediate fixed annuities lock the owner into a room where the ceiling on interest rates is only so high, some people worry that these products will not keep up with inflation. In efforts to confront that concern, insurance companies have designed some riders (add-on features in insurance contracts) that can either automatically increase annuity payouts every year or at least ensure that payouts will temporarily keep pace with consumer price indices.

A minority of annuity owners choose to receive variable immediate payouts, which can combat inflation without the help of a rider. Variable immediate annuities will not help someone craft a budget because, without riders, they offer no minimum guarantees. The insurance company calculates an initial payout for a variable immediate annuity, based on life expectancy and economic conditions, but subsequent payouts can rise or fall with the financial markets.

An immediate annuity might be purchased outright with a large principal sum, or it might be bought with proceeds from an old deferred annuity that has reached the end of its contract term. Either of these options is possible, regardless of whether the old or the new annuity is fixed or variable. For example, a variable deferred annuity that has reached the end of its contract term might be converted to an immediate fixed annuity. However, once an owner has purchased an immediate annuity, it generally cannot be converted or "rolled over" to a deferred annuity. Instead, the immediate annuity will continue to make payments for the rest of someone's life or on some other schedule, as determined by the owner.

Chapter 1: Common Annuity Contract Provisions

If you are planning on advising the public about annuities, you must have a thorough understanding of an annuity's common contractual provisions and restrictions. Many of those important items are covered in this chapter.

Issue Ages

Since annuities are often intended to provide a lifetime income to someone, the amount of each payment made to the consumer by the insurance company must be based on someone's life expectancy.

The person whose life expectancy influences the size of payments from the insurer is known as the "annuitant." In most (but not all) cases, the annuitant is also the person who receives an income through the annuity. The annuitant must be an actual person rather than a trust or a corporation. After all, trusts and corporations do not have a life expectancy.

In most cases, the person who purchases the annuity and the person who is the annuitant will be the same person. In other words, people will give their own money to an insurance company with the intent of creating a possible lifelong income for themselves. But it's also possible for one person to purchase an annuity (effectively serving as the annuity's owner) and another person to be the annuitant. For example, one spouse might own an annuity that pays income to the other spouse.

The owner's choice of an annuitant is important for many reasons, one of which involves "issue age" requirements. The "issue age" is the age of the annuitant when the annuity contract goes into effect. In the past, it was customary for insurance companies to not sell annuities to people if the annuitant was at least 70 or 75 years old. But because people are living longer, many of today's insurers have increased their maximum issue ages to 80, 85 or even 90. However, some maximum issue ages might be set by state law or by the state's insurance department.

In regard to minimum issue ages, in accordance with Section 10112 of the California Insurance Code, the use of an annuitant who is under 18 might require written consent from the minor's parent or guardian.

Maximum Ages to Receive Benefits

In some cases, money invested in an annuity must be distributed by the insurance company to the consumer by a certain date in order to avoid penalties. To better understand this requirement, we must first review the differences between "qualified annuities" and "non-qualified annuities."

Qualified annuities are paid for with pre-tax dollars, which means the principal in these accounts was not previously counted as part of the owner's taxable income. Since the principal was never taxed, taxes must be paid on the entirety of any money received from the insurance company.

Qualified annuities are often purchased within employer-sponsored 401(k) plans and IRAs. Like those common retirement vehicles, qualified annuity contracts limit the initial amount of money investors can contribute to their accounts. They also require that payouts begin by a specific date, usually by the time the accountholder is 70 ½.

"Non-qualified annuities" are funded with after-tax dollars, which means the principal was already counted in one form or another as part of the owner's taxable income. Since the principal was already taxed, only a portion of a person's annuity income will be taxable.

Unlike qualified annuities and many kinds of employer-sponsored retirement plans, non-qualified annuity contracts usually do not limit the amount of money investors may put into their accounts, and they don't need to be annuitized by the time the accountholder reaches age 70 ½. (The reader should note that the tax-related information in this course [unless stated otherwise] applies solely to non-qualified annuities.)

Despite the absence of a federal requirement, many insurance companies require that payments from an annuity begin no later than a certain date, such as when an annuitant turns 85. As always, contracts should be reviewed carefully so that potential buyers understand the details of this or any other restriction.

Premium Payments

Like other forms of money given by consumers to insurance companies, the amount paid to a life insurer for an annuity is known as a "premium." The premium might be in the form of a lump sum or in the form of multiple payments, which may or may not be equal every time.

Individuals who purchase annuities outside of an IRA or employer-sponsored retirement plan (in other words, most annuity owners) are probably buying these products with a single premium. In fact, finding an immediate annuity that does not require a lump-sum payment can seem impossible in some markets.

Annuity contracts that allow for multiple, flexible premium payments are usually deferred and are often funded through payroll deductions as part of an employer-sponsored retirement plan. Flexible-premium annuity contracts can stipulate a specific pay schedule as chosen by the buyer or the insurer, or the insurance company might give customers the freedom to make contributions to their accounts at any time. The contract might also state that the buyer can make unlimited contributions to the account but that all premiums must meet or exceed a minimum value.

Section 10540 of the California Insurance Code puts limits on life insurance premiums that are paid in installments and in advance of their due date. However, an exemption allows companies to accept premiums for the future purchase of annuities.

Premium Requirements

In most cases, the federal government doesn't put a cap on the amount of money someone may use to purchase an annuity. This freedom distinguishes the annuity from other retirement vehicles, including 401(k) plans and IRAs, which limit annual contributions to a few thousand dollars or so. However, individual insurers can set their own limits for premium contributions to annuities.

What an insurer does with an owner's premium will depend on whether the annuity is fixed or variable. For a fixed annuity, premiums are deposited into an insurer's general account and are used by the insurer to purchase government securities and high-quality, low-risk bonds. For a variable annuity, a portion of an owner's premiums is deposited into "subaccounts." Subaccounts are similar to mutual funds and can cause the value of the annuity to go up or down depending on economic conditions. You will read more about subaccounts in a later chapter of this course.

Administrative Charges and Fees

Annuities have come under fire in recent years because consumers have entered into them without being adequately aware of significant charges and fees. Annuity owners might face these charges and fees when they purchase the contract, when they make withdrawals or on an annual basis. The various annuity fees might include a one-time or annual contract fee, a transaction fee that reduces the account balance by a set percentage when the owner deposits or withdraws money, or an annual fee that compensates a financial institution for managing the owner's account.

Insurers will itemize these fees for people who purchase variable annuities, but fixed annuity owners rarely know how much they pay in fees. Instead, the fees they pay are usually bundled together and factored into the interest-rate guarantees that are offered by the insurance company. Annuity fees typically either stay the same throughout the term of the contract or go down annually, but they can sometimes rise.

Surrender Charges

Both fixed and variable annuities are practically guaranteed to feature "surrender charges." These charges result in a percentage-based deduction from the owner's account if the owner withdraws money or opts out of the contract before a specific date.

The owner's inability to access money from an annuity can create problems big and small. A relatively small problem concerns the interest rates that are applied to fixed annuities. Imagine, for example, that a person buys a fixed deferred annuity that will credit 5 percent interest to the person's account annually for seven years and also features a surrender charge that will remain in force for seven years. Three years pass, and an improved economy creates a financial climate in which many insurers now offer fixed deferred annuities with short-term interest guarantees of 7 percent. The person in our example knows about these better deals but would not be able to get out of the existing contract for another four years without having to pay a significant surrender charge.

Now, suppose the circumstances are more serious and that the owner needs money to handle a financial emergency. Even in these urgent cases, the account balance could still suffer a big blow because of surrender charges

Federal Surrender Charges

Although the Internal Revenue Service allows consumers to use annuities to defer income taxes on their interest, this tax break is sometimes paired with penalties if an owner withdraws money too soon. Owners who make early withdrawals will need to pay regular income taxes on the money they receive and will also surrender an additional 10 percent to taxes if a withdrawal occurs before they turn 59 ½. The regular income taxes and the additional 10 percent penalty will be applied to any portion of a withdrawal that is not considered a return of the owner's principal.

Even if an owner is willing to accept an additional 10 percent penalty, an early withdrawal can create a bigger tax bill than expected. Under a concept known as "last in, first out," an early withdrawal will first be treated as a gain and then as a partial return of principal. In other words, if an owner purchases an annuity for $10,000 and makes a $5,000 withdrawal after the account has grown to $15,000, the entire withdrawal will be fully taxable. Similarly, if the owner were to make a $6,000 early withdrawal from that account, $5,000 of it would be fully taxable, and only the remaining $1,000 (the amount in excess of the account's gains) would be treated as a non-taxable return of principal.

For obvious reasons, tax penalties for early withdrawals might make an annuity an uncomfortable fit for young consumers. In 2003, the National Association of Securities Dealers and the national media reported that a financial institution had sold a $30,000 annuity to an 18-year old. Based on current tax law, a person of that age would probably not be able to access the $30,000 to buy a home, purchase an automobile, fund a college education or pay off debt until more than 40 years had passed.

There are some exceptions that can nullify the 10 percent tax penalty (but not the requirement to pay regular income taxes). The 10 percent penalty generally does not apply if any of the following statements are true:

- The owner is at least 59 ½.
- The owner has a permanent, total disability.
- The owner has died, and payments are going to a beneficiary.
- The annuity involved is immediate, and payouts are being received on a regular basis in substantially equal amounts rather than in a lump sum.
- The owner has decided to convert a deferred annuity into an income stream (a process known as "annuitization") and will be receiving substantially equal payments based on his or her life expectancy for at least five years or at least until the owner turns 59 ½ (whichever is scheduled to happen later).

Keep in mind that there may be additional exceptions (or exceptions to the exceptions) that can impact taxpayers. In addition, the rules regarding early withdrawals and taxation can be very complicated if the annuitant and the owner are not the same person. For more specifics regarding federal withdrawal penalties, you may want to contact the IRS or speak to a tax professional.

Company-Mandated Surrender Charges

Even if an owner has passed age 59 ½ and can avoid federal surrender charges from the IRS, the owner might still need to pay a company-mandated surrender charge when money comes out of an annuity prematurely. Insurance companies tend to lose money on an annuity during its early years, and surrender charges help make up for losses if the owner cancels the contract before the insurer can make a profit on it.

At first, it may seem improbable that a financial institution would lose money in the early years after a sales transaction, particularly since buyers are often paying six-figure lump sums for immediate and deferred annuities. But, as is the case with a lot of life insurance transactions, a significant portion of an initial premium for an annuity helps pay producers' commissions. An annuity's high or lengthy surrender charge might be the result of a high commission for the agent or broker. Conversely, low surrender charges might be the result of a low commission for the agent or broker.

Sometimes, a prospective buyer can purchase an annuity directly from the insurance company, thereby avoiding commission costs and probably getting lower surrender charges. Of course, a direct purchaser might lack the expertise that trained professionals can provide. Consumers must also realize that direct purchases probably won't eliminate surrender fees altogether because the fees also cover various administrative costs and contribute to an overall pool of money that allows the insurer to satisfy contractual guarantees.

Under most circumstances, when surrender charges have expired, the owner will either renew his or her contract with the insurance company, withdraw the money and use it to purchase an annuity from another company or withdraw the money for some other investment purpose.

In the event that a new annuity is purchased, it is very likely that a new period of surrender charges will begin.

Sizes of Company-Level Surrender Charges

Surrender charges can differ greatly depending on the type of annuity and market conditions. In some cases, the surrender charge will come out of the annuity's total cash value. At other times, an insurer might only take surrender fees out of the principal and leave accumulated interest alone. On occasion, principal will remain intact, and the insurer will deduct the interest earned over a set period of time from the owner's account.

If consumers research annuities via the mainstream media, they will probably come to the conclusion that there is a standard surrender charge for annuities that starts at 7 percent or so and lasts roughly seven years, with each passing year resulting in a 1 percent reduction in the fee. In reality, the size and duration of a surrender charge can be better or worse than that. In terms of length, research conducted during the development of this course uncovered annuities with surrender fees that were as brief as three months and as long as the annuitant's lifetime. In terms of size, one annuity came with a surrender charge that began at a rate of 25 percent. Another product combined long duration with large size by reportedly featuring a surrender charge that started at nearly 18 percent and lasted 17 years.

People with an interest in flexible-premium annuities (in which principal can be added to an annuity on a periodic basis in the form of multiple premiums) ought to be aware of "rolling surrender charges." A rolling surrender charge is tied to all money invested at a particular time. If, for example, someone buys a flexible-premium annuity with a $10,000 initial investment, the insurer might allow the owner to withdraw the $10,000 without penalty after seven years or so. But if the owner puts an additional $5,000 into the annuity at a later date, a new surrender charge might apply, and the owner might need to wait an additional seven years before being able to access the additional $5,000.

Free Withdrawal Options

Insurers soften their sometimes rough surrender penalties by usually giving owners a chance to withdraw small amounts of money from their annuities without losing any additional principal or interest. Most contracts allow owners to withdraw up to 10 percent of their principal each year without being penalized with a surrender charge. If an owner withdraws more than this amount, the surrender charge will generally only be applied to the portion of the withdrawal that exceeds the annual limit. For example, if a $100,000 annuity allows for a 10 percent withdrawal ($10,000) and an owner withdraws $11,000, the surrender charge might only apply to the extra $1,000 that was received.

The free 10 percent withdrawals keep surrender charges at bay for people who need a little extra cash now and then. They do not, however, exempt the owner from tax laws. People must still pay income taxes on these partial withdrawals, and the government can still knock payouts down by 10 percent if they occur before the owner turns 59 ½.

Waivers for LTC, Disability, Unemployment and Other Emergencies

Annuity owners can use the money from an annual penalty-free withdrawal for anything they choose. "Crisis waivers," on the other hand, can only be used to support the owner or annuitant during specific financial emergencies, such as those involving a disability, a chronic health problem or unemployment. Still, these contractual items can be a huge help to consumers who would otherwise have limited access to their annuity's value during a time of tremendous need. A waiver may entitle someone to more than 10 percent of the principal each year.

Crisis waivers have become a common part of most annuity contracts and are often available to the owner at no additional charge. While some crisis waivers only waive surrender charges for withdrawals below a certain dollar amount, others let the owner make a clean break with the insurer without penalization.

Crisis waivers are commonly used in the following scenarios:

- A person requires long-term care (LTC) in a facility or at home,
- A person has been diagnosed with a terminal illness.
- A person has a permanent disability.
- A person is experiencing long-term unemployment or some other major financial hardship.

Money withdrawn due to an LTC, disability or unemployment crisis will still generally count as taxable income, although a disabled owner can escape the 10 percent tax penalty on withdrawals made prior to age 59 ½.

As a life insurance product, an annuity also contains a death benefit, which can be provided to a chosen beneficiary even if someone dies during a surrender period. More information about annuity death benefits appear later in this course.

Additional information about waivers (including additional benefits that can be obtained with an extra cost) appears in a subsequent chapter of this course.

Market Value Adjustments

Owners should be aware of the insurer's ability to make a "market value adjustment" (MVA). An MVA generally lets the insurance company reduce the value of a fixed deferred annuity if money comes out of the account at a time when interest rates for fixed annuities are higher than they were when the owner entered into the contract.

The MVA helps discourage annuity owners from surrendering their contracts and transferring their funds to a competing company that might be offering better guarantees. Perhaps most importantly, the MVA helps the insurance company cope with situations in which it must cash in long-term bonds prematurely in order to meet the demand for account withdrawals.

Formulas for MVAs boil down to the difference between the current interest rate at the time of withdrawal and the rate applied to the annuity when the contract began. In a simplified example, suppose a consumer bought an annuity when interest rates stood at 6 percent and surrenders the annuity when rates in the market stand at 9 percent. With the MVA in effect, the insurer would reduce the annuity's value by at least 3 percent before handing the funds back to the owner.

Prospective buyers deserve to know what sort of event will trigger an MVA. In general, the insurer will perform an MVA whenever the owner makes a full or partial withdrawal that is large enough to trigger a surrender charge. The MVA provision might disappear at the same time as the surrender charge if the owner keeps the contract in force for several years, but buyers and their advisers should review this feature carefully so that they understand the specifics.

The preceding paragraphs probably make MVAs seem a little scary. It's important to note that not every fixed deferred annuity will feature an MVA and that some buyers might actually prefer contracts with an MVA provision. If an owner withdraws funds at a time when interest rates for fixed annuities are lower than when the person purchased his or her contract, the MVA can result in a credit to the owner's account. Also, because the buyer who opts for a contract with an MVA is accepting more risk than someone who opts for a contract without this feature, an annuity that allows for an MVA might offer comparatively high and long-lasting guarantees of interest.

California Notice Requirements

Due to their complexity and costs, annuities sold in California must include certain disclosures. This is especially true when an annuity is sold to a "senior citizen," which the state's insurance code defines as anyone who is at least 60 years of age.

An annuity contract sold to a California senior citizen must include a notice alerting the buyer that he or she can get a refund of premiums if the annuity is cancelled within at least 30 days of purchase. This minimum 30-day period is known as a "free-look period." As of July 1, 2015, individual annuities sold to non-seniors must have a free-look period of at least 10 days.

Specifically, an annuity (other than a variable annuity) sold to a senior citizen must contain the following notice on the cover or policy jacket in at least 12-point font:

IMPORTANT

YOU HAVE PURCHASED A LIFE INSURANCE POLICY OR ANNUITY CONTRACT. CAREFULLY REVIEW IT FOR LIMITATIONS.

THIS POLICY MAY BE RETURNED WITHIN 30 DAYS FROM THE DATE YOU RECEIVED IT FOR A FULL REFUND BY RETURNING IT TO THE INSURANCE COMPANY OR AGENT WHO SOLD YOU THIS POLICY. AFTER 30 DAYS, CANCELLATION MAY RESULT IN A SUBSTANTIAL PENALTY, KNOWN AS A SURRENDER CHARGE."

For a variable annuity sold to a senior citizen, the following language must be used:

IMPORTANT

YOU HAVE PURCHASED A VARIABLE ANNUITY CONTRACT (VARIABLE LIFE

INSURANCE CONTRACT, OR MODIFIED GUARANTEED CONTRACT). CAREFULLY

REVIEW IT FOR LIMITATIONS.

THIS POLICY MAY BE RETURNED WITHIN 30 DAYS FROM THE DATE YOU RECEIVED IT. DURING THAT 30-DAY PERIOD, YOUR MONEY WILL BE PLACED IN A FIXED ACCOUNT OR MONEY-MARKET FUND, UNLESS YOU DIRECT THAT THE PREMIUM BE INVESTED IN A STOCK OR BOND PORTFOLIO UNDERLYING THE CONTRACT DURING THE 30-DAY PERIOD. IF YOU DO NOT DIRECT THAT THE PREMIUM BE INVESTED IN A STOCK OR BOND PORTFOLIO, AND IF YOU RETURN THE POLICY WITHIN THE 30-DAY PERIOD, YOU WILL BE ENTITLED TO A REFUND OF THE PREMIUM AND POLICY FEES. IF YOU DIRECT THAT THE PREMIUM BE INVESTED IN A STOCK OR BOND PORTFOLIO DURING

THE 30-DAY PERIOD, AND IF YOU RETURN THE POLICY DURING THAT PERIOD, YOU WILL BE ENTITLED TO A REFUND OF THE POLICY'S ACCOUNT VALUE ON THE DAY THE POLICY IS RECEIVED BY THE INSURANCE COMPANY OR AGENT WHO SOLD YOU THIS POLICY, WHICH COULD BE LESS THAN THE PREMIUM YOU PAID FOR THE POLICY. A RETURN OF THE POLICY AFTER 30 DAYS MAY RESULT IN A SUBSTANTIAL PENALTY, KNOWN AS A SURRENDER CHARGE.

Like this standard language, the surrender charges for a senior citizen's annuity must be disclosed in 12-point font on the cover page. If a senior receives an annual account statement from the insurance company, the statement must include the amount that the senior would receive if he or she were to surrender the annuity.

Chapter 2: Income Distribution Options

At a certain point, an annuity owner will be less concerned about accumulating interest and more concerned about how to receive money from the insurance company. The options for receiving an income through an annuity are explained in this chapter.

Annuitization

If an annuity owner is ready for the insurance company to start paying an income stream, the "annuitization" process will begin. With an immediate annuity, this process tends to begin no later than six months to a year of the owner's last (and often only) premium payment. With a deferred annuity, the process generally begins several years after the purchase, during which the annuity has had a chance to accumulate tax-deferred interest.

During traditional annuitization, the insurance company usually pays out the same amount in installments on a set schedule to an annuitant. An assortment of newer annuity contracts allows the owner to opt for payouts that are scheduled to go up or down after a certain date. This option can be helpful if the owner foresees a significant change in the annuitant's need for income. For example, the scheduled conclusion of a mortgage agreement might be reason enough for the owner to want payouts that start large but get smaller after a certain date. Some variable contracts allow the owner to choose between receiving level payouts upon annuitization or payouts that will go up or down depending on market performance.

In most annuitization situations, payouts are fixed at an equal amount and are scheduled to continue at least throughout the annuitant's lifetime. When the owner chooses this option, the amount of each individual payout owed to the annuitant will depend on the account balance and a figure called the "benefit rate." The benefit rate is the dollar amount the insurer will pay in each installment (usually on a monthly basis) for every $1,000 in the owner's account.

The benefit rates offered by different insurance companies will vary, but all benefit rates will be based, to a large extent, on the annuitant's life expectancy. Payouts from most immediate annuities will reflect the benefit rate that was offered by the insurer when the annuity contract was signed. Payouts for most deferred annuities will be based on either the benefit rate offered by the insurer at the time of annuitization or the guaranteed minimum benefit rate that was offered by the insurer when the contract was signed.

With life expectancy serving as such an important factor in the calculation of benefit rates, it ought to come as no surprise to the reader that older people receive higher benefit rates than younger people and that men receive higher benefit rates than women of the same age. Some insurers will also increase their benefit rates for annuitants with serious health problems.

Once annuitization has begun, the insurer generally may not reduce the benefit rate or the size of the scheduled payments. Suppose, for example, that a consumer bought an annuity and annuitized the account for life when it was worth $100,000 at a benefit rate of $10 per thousand. The person would then be entitled to $1,000 each month for life. This would be the case even if the annuitant ends up living longer than the insurance company originally expected. In this regard, the risk to companies selling annuities differs from the risk to companies that only sell life insurance. For the life insurer, the risk is that the person will die too soon to make the company profitable. For the company issuing an annuity, the risk is that a person will die too late.

Very often, people use the term "annuitization" as if it was synonymous solely with lifetime, monthly income. In fact, modern annuitization involves several other options for the owner.

Instead of occurring monthly, lifetime payouts can go to the annuitant every year, every season, twice each year or on a different schedule. The owner might also choose to have payments made beyond the annuitant's lifetime or for a shorter amount of time.

The choice of how to receive payments from an insurance company can be a complicated one. So it's important that you know what the common options for income distributions are likely to be.

Life/Straight-Life/Life-Only Option

Also known as "life" or "life-only," the "straight-life" annuitization option generally provides regular income until the annuitant passes away. Even if the annuitant lives longer than expected, the insurer must continue to make payments to the recipient. (As you might recall, the recipient of payments, the annuitant and the owner are usually the same person but can sometimes be different people.) If the annuitant dies sooner than expected but after payments from the insurer have already begun, those payments will stop and the insurer may be entitled to keep what's left in the account.

Since the straight-life annuitization option is only based on one person's life and doesn't extend payments beyond that person's life, the size of each individual payment will usually be higher than the next several options mentioned here.

Period Certain Option

The "period certain" (or "fixed period") option makes payments for a set number of years regardless of when an annuitant dies. When structured properly, an annuity with this feature can be beneficial for people who aren't concerned about outliving their savings but still need a steady amount of income during a specific timeframe. For example, a homeowner might choose a period certain option that ends after the scheduled repayment of a mortgage loan.

Be very careful not to confuse this option with the "life with period certain" option, which will be explained in the next section.

Life With Period Certain Option

The "life with period certain option" combines the "straight-life" and "period certain" options. In exchange for smaller individual payments than would be possible with a straight-life distribution, the life with period certain option can continue to provide an income stream even if an annuitant dies sooner than expected. For example, an annuity with an income distribution feature of life with a period of certain of 10 years would make payments to someone until either the annuitant dies or payments have been made by the insurer for 10 years, whichever happens last. In this example, if the annuitant were to die only year after the beginning of an income stream, a beneficiary would continue to receive payments from the insurer for another nine years.

Joint-Survivor Option

The "joint-survivor" option allows payments to be made while two people are alive and then to the survivor when one of them passes away. Depending on the chosen option, the amount paid to the survivor might be less than earlier payments or remain the same. Like a "joint-life" option, a "joint-survivor" payment schedule is common among spouses. However, it is important not to mistake one of these options for the other.

Joint-Life Option

A joint-life payment schedule provides income while two people (usually spouses) are alive. When the first of the two people dies, payments from the insurer end.

Cash-Refund Option

The "cash-refund" option ensures that the total income provided by the insurance company will at least be equal to the amount paid for the annuity. The insurer pays an income stream until the annuitant dies. Then, if the amount of income provided during the annuitant's lifetime was less than the amount originally paid by the owner, the difference is given to a designated recipient. If the income received during the annuitant's lifetime was greater than the amount paid by the owner, the income stream ends.

Variable Annuitization

When owners of variable deferred annuities determine that the time is right to start receiving periodic or lifetime income from the insurance company, they may put a stop to market risk and request fixed payouts that will be based on the insurer's benefit rate and the accumulated funds. In a sense, their variable annuity can transform into a fixed annuity during annuitization.

Other people will not be intimidated by continued market risk and will want their money to retain its growth potential even as they receive an income for life. Variable annuities make this latter option possible through the process of "variable annuitization."

At first, this concept might seem illogical. If the owner's investment remains in variable subaccounts that fluctuate with the markets, how can an insurer offer periodic payouts that are supposed to continue over the course of a person's lifetime?

For both deferred and immediate variable annuities, the answer to that question involves the "assumed interest rate" (AIR). Along with such important factors as the account balance and the annuitant's life expectancy, the AIR helps the insurer arrive at a statistically fair, initial payout. The company will then base subsequent payouts on the invested funds' performance in relation to the AIR. When investments in the annuity outperform the AIR, income received from the insurance company will be larger than the initial payout. When investments in the annuity under-perform, income received from the insurance company will be smaller than the initial payout.

Variable annuitization is a complex settlement option that will result in a regularly timed but inconsistently sized income for the annuitant. This can make budgeting a bit of a guessing game for annuitants. A sudden market downturn can cause someone who received a perfectly adequate income for one month to receive an inadequate income for the following month.

Why Wait to Annuitize?

Although having a consistent income stream for life can be an attractive option, there are several reasons why someone might delay annuitization. In fact, most deferred annuities never go through this phase. Instead, the money is left to accumulate until the owner dies or is withdrawn and used for another financial purpose.

Obviously, an investor who does not yet need additional income might be best served by leaving funds alone and allowing them to grow on a tax-deferred basis. But the risks involved with annuitization are sometimes more complex than that and may relate to liquidity, inflation protection and death benefits.

Some people don't annuitize because they like the flexibility that comes with receiving a lump-sum settlement from an insurer after a period of surrender charges has expired. Whereas an annuity that is still in the accumulation period can be surrendered for the full principal amount (minus any applicable surrender charges), a contract that has reached the annuitization period is sometimes nearly unbreakable.

Inflation is a concern in regard to annuitization because once the owner annuitizes, the amount of each payout is generally locked in place for the rest of the annuitant's life. If inflation or other factors cause an eventual rise in the annuitant's living expenses, the person will need to look beyond the annuity income to make up the difference. Some insurers offer inflation riders that might boost payouts under certain circumstances, but the riders typically lower the benefit rate that the insurer would normally offer at the beginning of annuitization. They can also seem unjustifiably expensive if the annuitant has a low life expectancy.

Finally, people who annuitize for life should plan to have mortality on their side because, once annuitization begins, the beneficiary's opportunity to collect death benefits often disappears.

The standard annuity death benefit gives beneficiaries the greater of the principal or the account balance when the annuitant (or owner) passes away. However, the death benefit sometimes applies only if the death occurs during the accumulation period. If someone annuitizes an account worth $200,000 for a lifetime monthly income of $2,000 and dies two months later, the insurer might be able to pocket the remaining $196,000. The owner can solve part of this potential problem by requesting enhanced death benefits or by choosing an income distribution schedule other than the life-only option, but this extra security for survivors will reduce payouts for the annuitant.

Split Annuities

Another possible but rarely mentioned option for the annuity prospect is the "split annuity." Through a split annuity, some of the owner's principal is used to create an immediate income stream, and the rest is put in a tax-deferred account for long-term accumulation.

Chapter 3: Fixed Annuities

If consumers like the basic idea of accumulating money for a lifelong income stream but don't want to risk taking a beating in financial markets, a fixed annuity might be the right product for them. Admittedly, a fixed annuity has both attractive and unattractive features. However we will begin our study of these contracts by focusing on their positive side and learn why these annuities (particularly when compared to variable annuities) are attractive to many savers and some growth-minded investors.

Unlike variable annuities, fixed annuities put nearly all the risks involved with investing money on the insurance company's shoulders and offer multiple guarantees. Arguably the most significant of these guarantees is a full return of the principal. Only premature withdrawals, premature surrender of the contract or an insurer's insolvency can endanger this guarantee. Otherwise, even in terrible market conditions, the owner's money will remain intact.

Fixed annuity contracts will also guarantee set amounts of interest that will be credited to the principal until annuitization. Generally, the insurer will designate a specific interest rate, known as the "initial rate," that will be applied to the principal for a contractually mandated period of time. After anywhere between a few months and a few years, the insurer pulls back the initial rate and credits a new interest rate to the annuity. This new rate is usually modest and can change frequently during the accumulation period, but the contract for the fixed annuity guarantees that the new rate will never fall below a set percentage.

These guarantees help simplify the fixed annuity from both a producer's and a prospective buyer's point of view. The minimum guarantees keep fixed contracts from being deemed securities under federal rules and allow licensed life insurance producers to sell these annuities without also needing to be licensed to sell stocks or other investment products. Sellers and marketers of variable annuities, on the other hand, generally cannot avoid this extra licensure requirement.

For the consumer, the guarantees mean that, barring premature withdrawals or surrender charges, a minimum return on a fixed annuity may be calculated down to the last penny and can greatly assist those annuitants who need to create a fixed budget for themselves. The fact that the insurance company remains responsible for investing the principal in its general account eliminates the need for consumers to wade through confusing account prospectuses and to make extremely complex investment decisions.

Death Benefits

Along with interest-rate guarantees, a fixed annuity will feature a guaranteed death benefit. In fact, all annuities offered by life insurance companies offer some kind of death benefit. However, the conditions under which the death benefit must be paid to a beneficiary are often more complex than most people realize.

The typical annuity offers a death benefit that's equal to at least the principal investment, minus any withdrawals of principal that were made by the owner. If an annuity experiences positive investment gains and is worth more than the principal sum when someone dies, beneficiaries can collect this larger amount instead and will be required to pay income taxes on the extra money.

Like a death benefit from a life insurance policy, death benefits from annuities can be handed over to the beneficiary in a number of ways, often at his or her choosing. For example, the entire death benefit might be provided in a lump sum, or it might be converted into an income stream that makes regular payments to the beneficiary for several years. For a limited time, the beneficiary of a deferred annuity might be able to keep the annuity untouched and allow it to earn tax-deferred interest. Even greater flexibility might exist if the beneficiary is the owner's spouse.

At first, all of this information about death benefits might sound fair or even favorable to beneficiaries, but there's a big catch. The standard death benefit sometimes only applies if someone dies while the annuity is in the accumulation period. If an owner has an immediate annuity or has annuitized a deferred annuity, the insurer might pocket the remaining balance in the account and use the money to make payouts to its other customers.

As you might recall from the previous chapter, the payment structure that is most likely to deprive a beneficiary of money after someone's death is the straight-life option. This method of receiving income from an annuity generally pays a reasonably large income stream until the annuitant dies but doesn't continue that income stream for anyone else after the death. If a consumer is concerned less about the size of each annuity payment and more about the continuation of those payments if someone dies, the life with period certain or the joint survivor option might be worth considering.

The Beneficiary

Even in cases where an insurer is clearly required to pay a death benefit of some kind, it can sometimes be difficult to identify the proper "beneficiary."

The "beneficiary" is a person, corporation or trust that receives death benefits if someone passes away before income payouts have begun. Depending on the annuity, a beneficiary might also be entitled to benefits even if the insurance company has already started making payments from the owner's account.

The annuity owner chooses the beneficiary and can alter that choice after the annuity has been issued. As is the case with a life insurance policy, owners can designate multiple beneficiaries, divide death benefits equally or unequally among those multiple beneficiaries, list contingent beneficiaries or pick themselves as beneficiaries. If the owner and the beneficiary are different people, the beneficiary cannot borrow from the annuity or alter investments within the annuity.

The role of the beneficiary may seem simple, but it can be complicated if the annuitant and the owner aren't the same person. Some annuities require that any applicable death benefits be paid to beneficiaries when the annuitant dies. Others will only pay death benefits when the owner dies. Annuities that will pay death benefits only when the owner dies are considered "owner-driven." Annuities that will pay any applicable death benefits if the annuitant dies before the owner are considered "annuitant-driven." (For tax reasons, an annuitant-driven annuity might also need to provide death benefits to a beneficiary if the owner dies before the annuitant.)

Because of the different rules for owner-driven and annuitant-driven contracts, the owner's choice of a beneficiary should be made with great care. Imagine, for example, a husband and wife who are involved in an annuity transaction. The couple's intention is for the surviving spouse to eventually be able to benefit from the annuity and for their children to receive death benefits when both spouses die.

Now assume that the couple decided to purchase an annuitant-driven annuity with the husband as the owner, the wife as the annuitant and their children as beneficiaries. If the wife dies before the husband, the money from the annuity might flow immediately to the children rather than to the husband. To avoid this problem, the husband could have listed himself as the main beneficiary and listed his children as contingent beneficiaries.

Now imagine that the same couple is involved but that the husband dies first. Again, any death benefits from the annuity might go to the children as beneficiaries instead of to the surviving spouse. If the husband had intended for his wife to benefit from the annuity after his death, he could have listed her as the main beneficiary and listed his children as contingent beneficiaries.

There are even scenarios in which a co-owner forfeits a financial interest in an annuity upon the other owner's death. To ensure that the intended beneficiaries only receive death benefits at the intended time, annuity contracts should be examined thoroughly by all parties and drafted with care.

Charges and Fees for Fixed Annuities

Money given by the owner for a fixed annuity is deposited into an insurer's general account. This is a major difference compared to a variable annuity, in which the owner generally deposits his or her money in a multiple "subaccounts" that are similar to mutual funds.

Due in large part to the lack of subaccounts that need to be maintained and managed by financial professionals, a fixed annuity will not feature the kinds of fees that can reduce the value of a variable annuity. The buyer is still compensating the insurer for administrative services, but costs for these services will rarely count as a direct charge that reduces one's account balance. Instead, the various costs associated with fixed annuities will be reflected in the interest-rate guarantees that are offered by the insurer on a multi-year or annual basis.

Despite the lack of annual charges and fees, fixed annuities (like practically all annuities) will penalize an owner for making withdrawals that are too large and too soon. For information about these "surrender charges," see the information in the previous chapter.

Interest Rate Planning Strategies

Insurers offering fixed annuities will guarantee a certain amount of interest (usually compounded) for a set period of time. In fact, multiple kinds of interest-rate guarantees might be found within the same contract. For example, one interest rate might be guaranteed for a period of six months to a few years. Then, at the end of that period, the insurer might apply another interest rate to the owner's account but guarantee that the applied rate will never deep below a specific percentage. This minimum guarantee might be set internally by the insurer or by state regulations.

In exchange for guarantees of principal and interest, owners accept the risk that interest rates being offered by other financial institutions might rise significantly while the annuity contract is in force. If the owner of a fixed annuity has second thoughts and wants to withdraw his or her money in order to take advantage of higher interest rates, surrender charges and tax penalties will need to be paid.

If a consumer cares more about investment growth than about guarantees, it might be appropriate to carefully review the kinds of interest rates that have been offered by an insurer, In addition, it might be wise to evaluate the overall status of the economy and try to judge where interest rates are likely to be headed over the next several years. Since most consumers lack a background in finance and economics, a trusted professional adviser might be the best candidate to conduct some of this research.

Initial Rates

The interest rates that insurance companies offer to owners of fixed annuities will depend on the company's business goals and financial health, the amount of money invested and the duration of the initial guarantee.

Due to a lack of annual fees, fixed annuities will always have their credited interest rates affected by the insurer's ideal "spread." In an annuity context, a spread is the difference between the amount of interest the insurer earns through its investments and the amount of interest the company applies to clients' principal.

Years ago, when economic prosperity nurtured extremely healthy market returns for insurers, owners of fixed annuities could sometimes receive double-digit interest rates during their annuities' early years. Today's initial interest rates are usually in the single digits. Some insurers will offer higher interest rates when buyers pay a minimum premium up front for the annuity. The customer can also receive a higher initial rate by agreeing to a lengthier or steeper surrender charge.

The insurance company guarantees the initial rate for only a brief period of time, which is usually shorter than the duration of surrender charges. In general, the guarantee will last a year, although a few contracts have limited the guarantee to six months.

Renewal Rates

After the guaranteed, initial interest rate on a deferred fixed annuity expires, the insurance company will begin crediting a new rate, sometimes known as a "renewal rate," to the owner's account. Like the initial rate, each renewal rate usually remains in effect for one year, but the insurer may alter the rate more or less frequently. It's possible, for instance, for an insurer to introduce a new renewal rate each quarter.

Renewal rates present some elements of risk to owners of fixed annuities because the insurance company generally has the right to set renewal rates as it sees fit. Owners have almost no way of knowing how the company will credit their accounts in the future.

Many factors can contribute to unfavorable renewal rates for fixed annuities. In fairness to insurance companies, many reduced renewal rates arise because the bonds that insurers must purchase in order to guarantee a return of principal have been governmentally set at rates that don't allow companies to cover expenses and keep a reasonable profit. In other words, the insurers' investments no longer allow them to maintain an adequate spread.

Sometimes, major changes at the company, such as a corporate merger, will lower renewal rates. At other unfortunate times, the issuing company will have planned to reduce rates significantly all along, and buyers eventually realize that the initial interest rate was merely a teaser to get unsuspecting customers in the door.

No matter the insurance company's level of good faith, unexpectedly low renewal rates put annuity owners in a disgruntled state of mind. Those who have owned a fixed annuity long enough to avoid surrender charges are likely to cancel their contract if renewal rates become ridiculously small. Those who can't break free from their contracts might start thinking about whether their investment will even keep pace with inflation and wonder if buying an annuity was ultimately a wise decision.

Businesses and some state governments have taken steps toward relieving consumers' nervousness regarding renewal rates. A few insurance companies sell annuity contracts that are actually guaranteed to earn more interest at renewal time. As the reader might have guessed, these products may credit initial interest rates that are lower than usual in order to compensate for the guaranteed increases.

Annual and Multi-Year Minimum Guaranteed Rates

The contract for a fixed deferred annuity will also list a “floor rate,” which adds some consumer protection to the renewal process. Even if the insurance company suffers through a tremendously tough year, it cannot lower interest rates for its fixed deferred annuities below the floor rate.

A combination of competition and legal requirements actually makes it possible for a contract to feature two floor rates. The first floor rate might come completely from the insurer’s desire to attract customers and might only guarantee a minimum interest rate for a few years. For example, the insurer might decide to offer a floor rate of 5 percent for five years, after which the company reserves the right to credit renewal rates below 5 percent. However, even when the insurer offers its own temporary floor rate for renewals, regulators insist that annuity owners receive a floor rate that remains in effect throughout the length of the contract. So, if a company only guarantees a floor rate of 5 percent for five years, the contract might still state that the owner cannot receive interest below 3 percent during later years.

Based on industry reports dating all the way back to the 1970s, the floor rates for fixed deferred annuities seem to have decreased slowly but surely over the years. Standard minimum guarantees of 4.5 percent over the lifetime of a contract gave way to 4 percent minimum guarantees, which then slid down to 3.5 percent guarantees until the floor rates fell to 3 percent. By that point, the standard floor rate was no longer dictated by industry competition and was, instead, merely intended to comply with state statutes that had been enacted decades ago, back when interest rates near 10 percent were not uncommon for treasury notes.

By 2002, the insurance industry had convinced itself that even the state-mandated 3 percent floor rates were too high and did not leave a big enough spread to cover commissions and various administrative costs. The National Association of Insurance Commissioners concurred and endorsed model regulations that set minimum floor rates somewhere between 1 percent and 3 percent, depending on interest rates of treasury notes.

Insurance professionals and prospective buyers can find the specific, minimum requirements for floor rates in their state’s insurance code. For the purpose of an example, California’s treatment of floor rates for fixed deferred annuities is detailed in sections (d) (1) and (d) (2) of the following excerpt:

10168.25. (a) This section shall apply to contracts issued on and after January 1, 2006, and may be applied by a company, on a contract-form-by-contract-form basis, to any contract issued on or after January 1, 2004, and before January 1, 2006

(b) The minimum values as specified in Sections 10168.3, 10168.4, 10168.5, 10168.6, and 10168.8 of any paid-up annuity, cash surrender or death benefits available under an annuity contract shall be based upon minimum nonforfeiture amounts as defined in this section.

(c)

1) *The minimum nonforfeiture amount at any time at or prior to the commencement of any annuity payments shall be equal to an accumulation up to that time, at the rates of interest indicated in subdivision (d), of the net considerations (as hereinafter defined) paid prior to that time, decreased by the sum of all of the following:*

(A) Any prior withdrawals from or partial surrenders of the contract, accumulated at the rates of interest indicated in subdivision (d).

(B) An annual contract charge of fifty dollars ($50), accumulated at the rates of interest indicated in subdivision (d).

(C) Any state premium tax paid by the company for the contract, accumulated at the rates of interest indicated in subdivision (d). However, the minimum nonforfeiture amount may not be decreased by this amount if the premium tax is subsequently credited back to the company.

(D) The amount of any indebtedness to the company on the contract, including interest due and accrued.

2) *The net considerations for a given contract year used to define the minimum nonforfeiture amount shall be an amount equal to 87.5 percent of the gross considerations credited to the contract during that contract year.*

(d) The interest rate used in determining minimum nonforfeiture amounts shall be an annual rate of interest determined as the lesser of 3 percent per annum and the following, which shall be specified in the contract if the interest rate will be reset:

1) *The five-year Constant Maturity Treasury Rate reported by the Federal Reserve as of a date, or averaged over a period, rounded to the nearest one-twentieth of 1 percent, specified in the contract no longer than 15 months prior to the contract issue date or redetermination date under paragraph (2), reduced by 125 basis points, where the resulting rate is not less than 1 percent.*

2) *The interest rate shall apply for an initial period and may be redetermined for additional periods. The redetermination date, basis, and period, if any, shall be stated in the contract. The basis is the date, or average over a specified period, that produces the value of the five-year Constant Maturity Treasury Rate to be used at each redetermination date.*

(e) During the period or term that a contract provides substantive participation in an equity indexed benefit, it may increase the reduction described in paragraph (2) of subdivision (d) by up to an additional 100 basis points to reflect the value of the equity index benefit. The present value at the contract issue date, and at each redetermination date thereafter, of the additional reduction shall not exceed the market value of the benefit. The commissioner may require a demonstration that the present value of the additional reduction does not exceed the market value of the benefit. Lacking a demonstration that is acceptable to the commissioner, the commissioner may disallow or limit the additional reduction.

(f) The commissioner may adopt regulations to implement the provisions of subdivision (e) and to provide for further adjustments to the calculation of minimum nonforfeiture amounts for contracts that provide substantive participation in an equity index benefit and for other contracts with respect to which the commissioner determines adjustments are justified.

Crediting Methods for Fixed Deferred Annuities

Insurance companies credit interest in seemingly innumerable ways. For simplicity’s sake, we’ll break down their various methods and focus on two general practices.

Portfolio Rating

In portfolio rating, all money in an annuity earns the same amount of interest regardless of when or if the owner paid multiple premiums to the insurance company. Suppose, for example, that the owner bought an annuity with an initial premium of $10,000 and invests another $5,000 in the annuity five years later. If the insurance company imposes a renewal rate of 5 percent and practices basic portfolio rating, it will credit 5 percent interest to the entire $15,000 investment until a new renewal rate goes into effect. Annuities bought with a single premium will be subjected to portfolio rating, and some annuities that require or allow for multiple premiums will be subjected to it, too.

Banding/"New Money" Rating

Some annuity contracts call for the use of a crediting method called "banding." When the banding method is used, different interest rates are applied to money in an annuity depending on when the owner made the investments. Imagine, once again, that an annuity owner buys the contract with an initial premium of $10,000 and invests an additional $5,000 in the annuity five years later. If the issuing company practices banding, the $10,000 initial premium will be credited with one interest rate, and the additional $5,000 will be credited with a different interest rate. If the owner makes another $5,000 payment to the insurance company, the contract might then call for a third rate to be applied to that latest portion of the principal. Usually, banding will result in higher interest rates being applied to the owner's most recent contributions to the annuity and lower interest rates being applied to the owner's earlier contributions.

In the cases of both portfolio rating and banding, we have looked at intentionally simplified examples. In reality, these crediting methods can be much more complex. Many annuity contracts call for a hybrid form of portfolio rating and banding. In these situations, the insurance company might offer one interest rate for "new money" that the owner gives to the insurer within a year or so and another interest rate for "old money" that was paid to the insurer at any earlier date. Following a year or two, the new money may be lumped in with the old money, and all of those dollars will be credited via the portfolio method from that point forward.

Bonus Rates

When economic conditions don't lend themselves well to attractive interest rates, or when one insurer merely wants to increase its profits or market share, a company might offer "bonus rates." A bonus typically ups the initial, guaranteed interest rate by a point or two. Once the initial guarantee expires, a renewal rate will go into effect and will not include the bonus.

A true bonus rate can be a great deal, even if it only means the difference of earning 1 percent extra on the principal. Many of the bonus rates that are offered in good faith exist because insurance agents accept lower commissions than usual from sales of the corresponding contracts or at least agree to receive a larger portion of their usual commission down the road rather than shortly after a sale. But in various other forms, an annuity with a bonus rate is sometimes too good to be true and can lure even a careful buyer into purchasing an inappropriate annuity.

One common complaint about bonus rates is that the issuing company can earn its money back at renewal time by applying lower rates to bonus annuities than to regular annuities. Suppose a man and a woman each buy a fixed deferred annuity at the same time but from competing insurance companies. The woman buys her annuity without a bonus rate and is promised an 8 percent interest rate on her investment for one year. The man, meanwhile, jumps at the opportunity to get a 2 percent bonus that will help him earn a guaranteed 10 percent on his investment in the first year. After 12 months go by, the insurance companies introduce renewal rates for their existing customers. The woman's insurer drops her interest rate to 7 percent, but the man's insurer knocks rates down to 5 percent. Another year passes, after which both insurers decide against changing their interest rates, and the man begins to wonder if he should have ever bothered with the bonus rate in the first place.

Sometimes the bonus rate has no noticeable effect on renewal rates but limits annuity owners' satisfaction in other ways. An interested buyer might discover that the surrender charges for an annuity with a bonus rate are steeper and remain in effect longer than surrender charges for other annuities.

Someone who takes advantage of a bonus rate might also find that the enhanced rate will not be credited to the principal under all circumstances. The insurer may reserve the right to rescind the bonus if the owner withdraws funds prematurely from the annuity. Some contracts place similar limits on beneficiaries by forcing them to receive death benefits in periodic installments if they want to receive interest created through the bonus rate.

Dealing With Low Interest Rates

Bailout Provisions

If annuity shoppers are worried about renewal rates sinking to unpredictable levels, they can shop for the increasingly rare annuity that includes a "bailout provision." A bailout provision lets the owner cancel the annuity contract without having to deal with surrender charges if renewal rates ever drop to a certain percentage. This provision is very similar to a guaranteed floor rate but promises liquidity instead of a rate of return.

Some bailout provisions allow owners to surrender their annuities if renewal rates ever fall below 1 percent of the initial guarantee. Others will permit a penalty-free, total withdrawal if the renewal rate is more than 1 percent less than the preceding renewal rate. The owner may have 30 days following the imposition of the renewal rate to bail out of the contract and receive at least a return of principal. If the renewal rate is lower than the rate floor in the bailout provision and the owner does not act, the contract will renew at the new rate.

Jump Rates

Some insurers sell riders that allow money accumulating in an annuity to earn interest at a "jump rate" if the rates offered to prospective customers are greater than the rates offered to existing customers. A jump rate basically turns back the clock on the annuity contract and replaces the renewal rate with whatever initial, guaranteed rate the company is marketing at the time. So if the renewal rate on an old annuity is 5 percent and the initial rate on a similar, new annuity bought from the company is 7 percent, the rider would give the owner of the old annuity a one-time opportunity to earn 7 percent interest.

Like the initial rate in a regular annuity contract, the jump rate will only last temporarily, and a renewal rate will eventually kick in. Jump rates will usually introduce a new period during which the owner must pay surrender fees for any early withdrawals. If owners buy a contract that allows for a jump rate, they might need to wait a few years before taking the jump. Also, the chance to take the one-time jump might be limited to the early years of a contract.

Chapter 4: Variable Annuities

Like the annuities we have already covered, variable annuities may be immediate or deferred, can create a lifelong income stream for an annuitant, may feature a death benefit and will involve surrender charges for early withdrawals. Nevertheless, these products are significantly different from fixed annuities.

Variable annuities can lead to investment gains that tower over those created through fixed annuities or CDs, but they can also result in some losses. Unlike the fixed annuity, a variable annuity contract doesn't need to guarantee a full return of principal or a particular amount of interest. The annuity's value at any given time may depend on the state of the economy and the soundness of the owner's investment decisions.

Variable annuities might satisfy consumers who are interested in a long-term investment that might keep up with or exceed inflation and who feel reasonably comfortable putting their money in mutual funds. People who have had success with variable life insurance policies might also find variable annuities to their liking. However, it might be hard or even inappropriate to sell a variable annuity to someone who prefers security over growth.

Regulation of Variable Annuities

Variable annuities present considerable market risk to buyers and don't always balance that risk with free guarantees. This imbalance explains why the federal government and state regulators treat variable annuities like securities.

Security-level status puts the variable annuity market under the rule of the Securities and Exchange Commission (SEC)—which aims to protect consumers at a national level—and private regulatory organizations that oversee market conduct. The most prominent of these private regulatory organizations is the Financial Industry Regulatory Authority (FINRA).

Licensing

Anyone interested in selling variable annuities should keep in mind that he or she must be licensed to sell variable products. In general, this requires that the person pass a national exam known as "Series 7" and register with FINRA. A basic license to sell life insurance policies will not be enough to sell variable annuities.

The Prospectus

Regulations require that all variable annuity contracts come with a prospectus, which discloses all fees associated with the annuity and summarizes the investment history of the subaccounts associated with the annuity. The prospectus should be simple yet informative enough to help people make educated decisions regarding their investments.

General vs. Separate Accounts

Premiums paid for a variable annuity don't all become part of the insurer's general account. Instead a significant portion of the owner's money is put into one or several separate "subaccounts." Subaccounts are similar to mutual funds but are usually taxed differently. Whereas investors in mutual funds might have to pay capital gains taxes annually, subaccounts in an annuity may be allowed to grow on a tax-deferred basis until the owner withdraws money or initiates an income stream from the insurer. Then, amounts not considered part of the owner's principal will generally be taxed as income rather than as capital gains. (In general, tax rates for income are higher than tax rates for capital gains.)

Each subaccount is structured differently and can result in a different return or even a loss. Although some subaccounts are "fixed" and won't jeopardize the amount put into them, other subaccounts chosen by the owner will be "variable" and will go up or down in value depending on market conditions.

The annuity owner generally has the right to allocate the principal investment as he or she sees fit. Nearly all of the owner's investment can go into a single subaccount, or the principal may be disbursed relatively evenly among several different subaccounts. Some subaccounts, known as "equity subaccounts," involve the purchase of stock, while others involve the purchase of bonds. If an owner fits a certain risk profile, there might be a subaccount that invests in his or her preferred combination of stocks, bonds and low-risk financial instruments.

Like a variable life insurance policy, a variable annuity contract will give owners the opportunity to transfer money from one type of fund to another within contractually mandated limits. The owner might have an opportunity every month to move money from a domestic stock account into an international stock account, for example, and the insurer might require that all transfers involve a minimum number of dollars. Transfers within a variable annuity will avoid taxation, but the contract may allow the insurance company to charge surrender-type fees if transfers occur too frequently or involve movement between a fixed account and a variable account.

Dollar-Cost Averaging

Although annuities tend to be purchased with one lump sum, many insurers offer annuities that allow the owner to deposit multiple premiums at various times. For multiple-premium (or "flexible-premium") variable annuity owners, the concept of "dollar-cost averaging" may be important to understand

An investor who practices dollar-cost averaging invests the same amount of money in mutual funds, subaccounts or other investment vehicles at regular intervals. By investing the same amount on a regular basis, the investor reduces the risk of "buying high" and "selling low." Instead of trying to time the market, dollar-cost averaging lets investors buy more shares in a fund when those shares are cheap and less shares when they are expensive.

Many financial planners stress the importance of dollar-cost averaging and believe it is the smartest way for the average person to purchase securities and similar investment products. Of course, even those planners are likely to admit that there are exceptions to every rule and that individual circumstances should be considered before any firm recommendations are made.

Variable Annuity Fees

The mechanics of the variable annuity tend to make it a seemingly costlier product than the fixed annuity. As the reader might recall, owners of fixed annuities often have no idea exactly how much money an insurance company is making from a sale. Since the insurer is the party doing all the investing in a fixed setup, it merely calculates a spread for itself and credits the excess interest to owners' accounts. The insurer may credit less interest from one year to the next, but it generally doesn't subtract fees directly from the owner's account.

Owners of variable annuities pay flat fees as well as percentage-based "asset charges" that will be linked to the amount of money in an account. In most cases, these fees will remain the same as long as the contract is in force. Annuitants who opt for variable payouts, which are explained in a previous chapter, will continue to be charged these fees during annuitization. The various fees can lessen investment gains during good times and possibly contribute to a financial loss during rough times.

An “account maintenance fee” is perhaps the most common flat fee found in variable contracts. The charge generally covers the cost of paperwork. In terms of asset charges, owners can at least expect to pay a “mortality and expense risk charge,” which will typically amount to somewhere near 1.25 percent of the annuity’s value each year. This annual fee is like a life insurance premium and helps pay for any applicable death benefits. The typical variable annuity contract calls for beneficiaries to receive the greater of the principal investment, minus any previous withdrawals and the annuity’s value at the time of death. For an additional fee, the insurer might guarantee a larger death benefit.

Beyond those two common fees, the owner might also need to reimburse the issuing company and its affiliates for investment-related services, such as fund management, and might need to pay yet another fee for any desired financial advice.

Optional Guarantees

In spite of the risks involved with variable annuities, consumers can secure various guarantees from the insurance company if they’re willing to pay annual fees, sacrifice more liquidity or follow a strict investment plan. These optional guarantees may cater to the owner’s desire to provide additional funds for beneficiaries or can create a relatively reliable income stream for the annuitant.

Because we are already familiar with the general concept of an annuity’s death benefit, we’ll quickly focus first on those optional guarantees related specifically to beneficiaries and then turn our full attention to different kinds of contract provisions called “living benefits.”

Variable Annuity Death Benefits

The standard annuity death benefit grants beneficiaries the greater of the principal and the annuity’s value at the time of the death, minus any previous withdrawals. This may seem like a reasonable benefit as far as fixed annuities are concerned because the fixed annuity’s value won’t decrease unless the owner makes premature withdrawals. But with a variable annuity, there’s always a chance that a portion of the owner’s investment gains will vanish during a market downturn.

Pretend, for a moment, that a man bought a variable annuity for $100,000 and opted for a standard death benefit. After 15 years, investment gains pushed the man’s account value up to $130,000. After five more years, some of the man’s investments went poorly, and his account value dropped to $125,000. The man died, and the standard death benefit entitled his beneficiaries to $125,000. On the positive side of things, his heirs received $25,000 more than his principal investment. But the drop in the annuity’s value from $130,000 to $125,000 meant that $5,000 was lost along the way.

If the fellow in our example wanted to maximize death benefits for dependants or other loved ones, he could have purchased a rider that allowed for a “stepped-up” death benefit. This contract feature, which usually involves an annual fee, allows the owner to lock in the minimum death benefit once or every few years during the accumulation period if the variable annuity increases in value. When the annuitant dies, beneficiaries receive the greater of the stepped-up amount and the account value at the time of death. So, if the owner buys an annuity for $100,000 and invokes a stepped-up provision when the annuity is worth $130,000, beneficiaries are guaranteed to receive at least $130,000 if death occurs prior to annuitization and prior to any premature withdrawals.

If the owner is worried about losing money in a variable annuity and leaving nothing but the principal amount for beneficiaries, he or she can purchase a modestly enhanced death benefit. For an annual fee, the insurer will guarantee that beneficiaries will at least receive a return of the principal plus a pre-set rate of interest if death occurs prior to annuitization.

The California Insurance Code requires that the death benefit be equal to at least the annuity's "cash surrender value" (in other words, the amount that would be received if the owner were to surrender the annuity). The relevant portion of the code appears below:

10168.4. For contracts which provide cash surrender benefits, such cash surrender benefits available prior to maturity shall not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit which would be provided under the contract at maturity arising from considerations paid prior to the time of cash surrender reduced by the amount appropriate to reflect any prior withdrawals from or partial surrenders of the contract, such present value being calculated on the basis of an interest rate not more than 1 percent higher than the interest rate specified in the contract for accumulating the net considerations to determine such maturity value, decreased by the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. In no event shall any cash surrender benefit be less than the minimum nonforfeiture amount at that time. The death benefit under such contracts shall be at least equal to the cash surrender benefit.

Living Benefits

Living benefits help preserve a potential lifelong income for the annuitant regardless of poor market conditions. Essentially, when insurers attach living benefits to their variable annuities, they are adding fixed elements to the contracts and selling minimum guarantees.

Perhaps the most common living benefit is the "guaranteed minimum income benefit" (GMIB), which, in some ways, entitles the annuitant to a modest immediate fixed annuity if investments in the variable sub-accounts prove to be disastrous. In exchange for keeping the variable annuity with the issuing company for several years (usually 10), the annuitant will receive no less than the GMIB upon annuitization. In exchange for that extra security, the owner must invest premiums temporarily in a manner chosen by the insurance company. When owners surrender their variable annuities, they also surrender this non-transferable living benefit.

The fact that the GMIB only applies during annuitization distinguishes it from the "guaranteed minimum accumulation benefit" (GMAB), which, in some ways, entitles the owner to a minimum rate of return. In exchange for keeping the variable annuity with the issuing company for several years, the owner will end up with an annuity that can be worth no less than the GMAB, which is usually equivalent to the principal investment.

Like the GMIB, the inclusion of a GMAB might force the owner to invest premiums temporarily in a manner chosen by the insurer. However, the owner might have the right to take advantage of the GMAB without needing to annuitize with the issuing company. In other words, unlike some other living benefits, the GMAB might still be applicable if the owner decides to surrender the annuity after a number of years and receive a lump sum instead of regular, equal payouts.

Another optional pre-annuitization feature is the "guaranteed minimum withdrawal benefit" (GMWB), which guarantees that the owner may take out a set percentage of the principal each year even when the initial funds become battered in the financial markets. A basic GMWB allows for withdrawals up to a certain percentage until the owner has withdrawn a cumulative amount equal to the principal investment.

Another kind of GMWB may extend the benefit beyond the principal investment and through the annuitant's lifetime. Suppose a woman buys an annuity for $100,000 along with a GMWB that allows for 4 percent withdrawals for life. She could then receive $4,000 annually without annuitizing. If her annuity's value ever dips below $4,000, she could still receive annual checks, equal to the GMWB, from the insurance company.

All of these guarantees are usually associated with potentially significant annual fees. An owner who chooses these benefits should expect to pay an asset charge of at least 0.5 percent or so to the insurance company each year.

The asset charge for each benefit might not seem like much at first, and the benefits might end up paying for themselves in a threatening financial environment. But prospective buyers should be made to understand that, just like the annuity itself, a living benefit represents a long-term commitment between the insurer and the contract owner. If buyers have second thoughts after purchasing a living benefit, they may find it hard or even impossible to cancel the add-on provision.

Chapter 5: Indexed Annuities

For many consumers, the choice between a traditional fixed annuity and a variable annuity is too limited to bring them into the annuity market. From their perspective, the typical fixed annuity doesn't allow for enough growth to settle a person's long-term concerns about interest rates and inflation. Yet, at the same time, the variable annuity seems like an overly risky product that puts people's life savings at the mercy of an unpredictable investment environment.

To meet the needs of those prospects who are intrigued by the potential for growth but uninterested in dealing with market uncertainty, insurance companies and other financial institutions have developed hybrid products called "indexed annuities." These annuities tend to combine some of the various strengths and weaknesses of basic fixed and variable contracts. For many years, these annuities were known by the name "equity-indexed annuities." but the industry moved away from that wording in an attempt to avoid confusion and regulatory scrutiny.

Since its debut in the early 1990s, the indexed annuity has remained in third place in the annuity industry. However, the billions of dollars spent on indexed annuities over the years and the willingness of consumers to exchange their CDs and regular fixed annuities for these relatively new products suggest that the indexed annuity is a popular gateway item that has eased many conservative investors into the financial markets.

Growth Potential and Minimum Guarantees

An indexed annuity is typically a deferred investment product with contract terms that can last anywhere from one year to 15 years and sometimes more. When owners give money to insurance companies for an indexed annuity, most of the premiums are invested in low-risk bonds and other items associated with fixed annuities, but the insurer also spends some of the principal on call options within a stock index, such as the S&P 500 or the Dow Jones Industrial Average. Some indexed annuities allow premiums to go toward call options in multiple bond and stock indices or into an index created by the insurance company.

Despite not owning these stock options, the indexed annuity owner is contractually entitled to share in the wealth that those options create. The interest rate credited to the buyer's principal will be based on the amount of growth in the stock index over the contract term. For the sake of a simple example, pretend that a stock index associated with an indexed annuity grows by 9 percent during a one-year term. As result of that growth, the owner might earn 9 percent interest on the indexed annuity, minus various deductions by the insurer. The owner typically does not receive any dividends.

Like a variable annuity, an indexed annuity lacks a fixed initial interest rate and does not subject the owner to insurer-mandated renewal rates. Much of the risk involved with an indexed annuity lies in the performance of the stock market rather than in the insurer's sense of fairness. A market boom at the right time can make an indexed annuity more profitable than a traditional fixed annuity, while a market downturn at the wrong time can create disappointment among owners and make the traditional fixed contract a potentially better deal.

A lot of the differences between indexed annuities and variable annuities relate to guarantees. Unlike the typical variable contract, an indexed annuity automatically guarantees a certain return of principal (regardless of any surrender charges) when the owner annuitizes or chooses to make a full or partial withdrawal. (Though many variable annuities offer this kind of guarantee, it might only apply if the owner pays an extra amount or agrees to surrender some control over how premiums should be allocated.) Also, in a fashion somewhat similar to a traditional fixed annuity, an indexed annuity guarantees that at least a portion of the principal (often 87.5 percent) will be credited with a minimum interest rate at the end of the contract term.

Indexed Annuity Interest Rates and the Issue of Fees

Considering their attractive combination of growth potential and minimum guarantees, it may seem strange that Indexed annuities have not yet become the dominant products in the annuity market. But upon closer inspection of indexed annuity contracts, we can see how some potential buyers might be turned off by the limits insurers put on owners' investment gains and by the complex manner in which issuing companies calculate and apply interest to these annuities.

Like other fixed annuities, the indexed annuity usually does not involve fees that are deducted directly from the owner's account balance. The insurance company earns profits and recoups its administrative expenses from Indexed annuities by taking a percentage of investment gains for itself before crediting interest to the annuity. As a result of this financial arrangement between owner and insurer, the buyer cannot monitor a stock index, such as the S&P 500, and expect to earn interest that is equal to the jump in the index during the contract term. A 10 percent bump in the S&P from one year to the next, for example, is merely a starting point for calculating interest on the annuity. In the end, the percentage credited to the owner's account will inevitably drop due to contractually defined participation rates, caps and spreads.

Participation Rates

The indexed annuity's "participation rate" is the percentage of the increase in the stock index that the insurer will credit to the owner's annuity. Suppose a person bought an indexed annuity when the corresponding index was at 800 points. At the end of the contract term, the same index is at 880 points. The 80-point increase in the index translates to a 10 percent gain between the start and the conclusion of the term. So, does that mean the owner's annuity will be credited with 10 percent interest for each year of the term? With the participation rate in effect, the answer to that question is "no." If the participation rate on that indexed annuity is 80 percent, the owner will receive no more than 80 percent of the 10 percent gain in the index. This drops the credited interest rate in our example down to 8 percent.

An indexed annuity's participation rate can range from more than 100 percent (when temporary bonuses are involved) to less than 50 percent. When shopping for an indexed annuity and negotiating with issuing companies, the prospective buyer can influence the offered participation rate by making choices related to guarantees, liquidity and the type of interest that will be credited to the annuity.

If the consumer demands a guaranteed, 100 percent return of principal and wants minimum interest guarantees that exceed local statutory requirements, he or she might not receive a high participation rate. Conversely, people who demand fewer guarantees will probably have to share less of the investment gains with the insurance company.

Long-term contracts tend to have larger participation rates than short-term contracts. A 10-year term with no opportunities for penalty-free withdrawals might help push the percentage rate near 100 percent.

Also, even though it receives relatively little attention in the financial press, an owner's choice between simple interest and compounded interest for the indexed annuity might affect the participation rate. Simple interest is credited only to the principal amount, whereas compounded interest is credited to the principal amount and any pre-existing interest that has been added to the account. An indexed annuity featuring compounded interest will probably grow larger and more quickly than an annuity featuring simple interest. In exchange for giving up the opportunity to earn compounded interest, an indexed annuity owner who accepts simple interest might be rewarded with a high participation rate.

According to the National Association of Insurance Commissioners, most Indexed annuities with simple interest will combine the principal and the simple interest at the end of the contract term and will treat the sum as principal during the subsequent term. So, as long as the owner renews the contract after the term, even money earned through simple interest can eventually start earning some compounded interest.

Other factors that may affect participation rates are generally beyond the buyer's control. For example, when the government lowers interest rates for its bonds, the insurance company will need to spend more money in order to back up its guarantees and might decide to reduce participation rates. Likewise, the rising price of call options within a particular stock index can lessen the insurer's ability to share investment gains with its customers and may bring participation rates down. These economic factors create a market environment in which a buyer can look into the same indexed annuity from the same company on consecutive days of the week and be offered different participation rates.

Once someone purchases the indexed annuity, the participation rate can become as unpredictable as a renewal rate for a traditional fixed annuity. Many insurers guarantee the participation rate for the term of the contract and only change the rate when the contract comes up for renewal. Others will guarantee that the participation rate for a multi-year term will not change until the annuity's anniversary date. It's also possible for the participation rate to be guaranteed for a few years or for it to change every month. When the participation rate is not guaranteed for the entire contract term, some companies will at least promise not to reduce participation rates below a certain percentage.

Spreads

For many indexed annuity owners, the reduction in interest credited to their annuity begins before the insurer applies the participation rate. As is the case with a regular fixed annuity, the insurance company may keep a spread for itself to cover administrative costs. Like the participation rate, the spread can be guaranteed for the entire contract term, or the insurer can take a different spread every year. The insurance company will deduct the spread from the gain in the index.

If the stock index goes up 10 percent during a term, and the contract permits the insurer to take a 2 percent spread, the annuity owner would be left with 8 percent interest. If that same annuity contract called for a participation rate of 80 percent, the insurer would then multiply 8 percent by 80 percent and might ultimately credit 6.4 percent interest to the owner's account. Contracts with spreads can come with or without participation rates and vice versa.

Caps

Insurance companies may put a "cap" on the amount of interest that can be credited to an indexed annuity account for each year or each contract term. The cap prevents the owner from receiving interest above a certain percentage point. Typical caps range from 7 percent to 14 percent, with 10 percent perhaps representing the norm.

With a cap in place, indexed annuity owners should get excited about a market boom but shouldn't necessarily become overjoyed. If an index goes up 20 percent during a term and an indexed annuity has a 10 percent cap, the owner will receive no more than 10 percent interest.

The cap can replace or work hand-in-hand with participation rates and spreads. Suppose an indexed annuity's index goes up 12 percent over a term. A 2 percent spread would knock the owner's interest down to 10 percent. At an 80 percent participation rate, that 10 percent would be cut to 8 percent. Then, with a 7 percent cap, the interest would drop another point, and the owner would end up receiving 7 percent interest from the insurance company.

Participation rates, spreads and caps may neutralize one another's negatives when they all appear together in an annuity contract. A contract with a cap, for example, might boast a higher participation rate than a contract with no cap.

Indexed Annuity Crediting Methods

The insurance industry has taken a non-uniform approach to indexed annuity crediting methods. Within the context of Indexed annuities, crediting methods generally refer to the contractually defined times when insurers calculate gains or losses in stock indices and to the contractually defined times when insurers add interest to the annuity owner's principal. Many people who sell annuities break these methods down into three general categories: annual reset methods, point-to-point methods and high watermark methods. However, be aware that an indexed annuity might contain a combination of these methods.

Annual Reset/Annual Point-to-Point

According to multiple industry reports, most Indexed annuities sold today use the annual reset method. This method—sometimes called "annual point-to-point" or "annual ratchet"—uses the annuity's issue date as the first starting point for the index and then calculates the change in the index from that starting point to the anniversary of the issue date. If a person bought an annuity when the corresponding index was at 1,000 points, and the index jumped to 1,100 points on its first anniversary date for a 10 percent annual gain, the owner would have been credited with 10 percent interest for that year.

In subsequent years, the insurer determines the appropriate interest rate by comparing the index at the previous anniversary date to the index at the next anniversary date. So, if the index in our previous example jumped from 1,100 points on its first anniversary, to 1,200 points on its second anniversary, for an annual gain of 9 percent, the owner would have been credited with 9 percent interest for the indexed annuity's second year. If the market goes down between anniversary dates, the insurer may credit no interest (or only a minimum guaranteed amount) to the annuity for that year.

The annual reset method works well for consumers when the stock index experiences a major upturn near the contract's anniversary date. Unlike other crediting methods, it locks in interest for the owner every year, even when the contract term lasts several years. If the index performs well during one year, the resulting interest will not be jeopardized by the index's poor performance in other years. However, because the insurer calculates interest every year in the annual reset method, the owner will likely notice yearly changes in participation rates, spreads and caps. More so than any other crediting method, the annual reset method might allow owners to take previously calculated interest with them if they surrender the indexed annuity before the end of a term.

Long-Term Point-to-Point

The regular “point-to-point method”—as opposed to “annual point-to-point—is probably the simplest way insurers credit interest to Indexed annuities. Companies use the beginning of the term as the starting date for the index and then calculate the change in the index from that point to the end of the term. If a person bought an indexed annuity with a seven-year term when the corresponding index was at 1,100 points, and the index jumped to 1,250 points at the end of its seven-year term for a 13.6 percent total gain over the entire period, the owner would be credited 13.6 percent interest, minus any insurer deductions for the seven-year term. Any annual gains or losses related to the index between those seven years would not factor directly into the insurer’s calculations.

The point-to-point method might appeal to people who foresee a major, positive change in the index between the beginning of the term and the end of the term. The method will serve owners poorly if the market booms early or in the middle of the term before coming back down to earth at the end of the term. Since the interest rate depends on the index’s status at the end of the term, owners do not receive interest from the insurance company every year, and therefore might not be able to take any interest with them if they surrender this kind of indexed annuity before the end of a term. Insurers attempt to reduce point-to-point Indexed annuities’ long-term risks by including high participation rates and high caps within these contracts.

High Watermark

The “high watermark method” falls somewhere between the point-to-point method and the annual reset method. Like they do with point-to-point Indexed annuities, insurance companies use the beginning of the term as the starting point for the index and do not credit any interest to the annuity until the end of the multi-year term. Yet, like they do with annual reset Indexed annuities, companies keep track of the changes in the index from one anniversary to the next. At the end of the term, minus any insurer-imposed deductions, owners receive interest equal to the biggest gain in the index, as calculated on the various anniversary dates. So, if the index experienced a 9 percent gain for the third year of the indexed annuity and experienced 6 percent gains in every other year of the term, the owner would receive 9 percent interest for every year of the term.

The high watermark method protects the owner’s ability to earn a sizable portion of interest if the index goes up early or in the middle of the term, before tanking near the final anniversary date. Still, the high watermark’s potential to generate more interest than the other two crediting methods comes with a few drawbacks. Participation rates for these annuities will probably be lower than those for point-to-point annuities. There is also a chance that the owner will receive no interest if he or she surrenders the annuity before the end of a term.

Monthly/Daily Averaging

One potentially scary thing about all three of these basic crediting methods is that they depend on an index’s status on a particular day, whether that is the anniversary date or the final day of the term. An unexpected drop in the index near one of these days could make an otherwise healthy index completely useless to the indexed annuity’s owner.

Many companies tackle this issue by tracking the index daily or monthly to come up with an average gain for the year or for the entire term. Depending on the issuing company, a prospective buyer might be able to secure a daily or monthly averaged indexed annuity that calculates interest via the annual reset method, the point-to-point method or the high watermark method.

Indexed Annuity Withdrawals and Surrenders

Most indexed annuity contracts stipulate that owners will have at least 30 days after the end of a term to withdraw some or all of their money and not suffer surrender fees or any loss of interest. But what if the owner wants some or all of the money back during the middle of a term? Many indexed annuity contracts permit annual, penalty-free withdrawals equal to 10 percent of the account value. Others will at least let people take out several hundred dollars every year without having to worry about fees.

Full withdrawals, on the other hand, can hurt the owner's chances of receiving expected returns of principal and interest. If the consumer foresees any situation in which a premature surrender might be necessary, a careful look at the indexed annuity contract's language is in order.

Some contracts in the United States will not pay any index-based interest to someone who surrenders an indexed annuity before the end of the term. Instead, the owner can usually expect an 87.5 percent return of principal and a nominal rate of interest (but not interest that is based on the index) that will apply to every year that the annuity was in force. If the owner has kept the annuity through multiple terms, the insurer might return a minimum of 87.5 percent of the principal and any index-based interest that was credited to the annuity in previous terms, but the company might not give the owner any index-based interest that covers the current term.

It is also possible for the owner to receive at least some interest that applies to the canceled term, but this credited interest will depend on the insurer's "vesting schedule." An indexed annuity's vesting schedule dictates what percentage of calculated interest the contract owner may receive at any given time if the contract is surrendered prematurely or concludes naturally. For example, a vesting schedule for an indexed annuity with a 10-year term might allow the owner to receive 10 percent of calculated interest if surrender occurs after one year, 20 percent of calculated interest if surrender occurs after two years, 30 percent of calculated interest if surrender occurs after three years and so on. The vesting schedule will be formulated in a way that ensures the owner will receive 100 percent of calculated interest at the end of a term.

Just because an indexed annuity contract can deny interest to owners when they surrender their annuities doesn't mean that those owners will be exempt from surrender charges. A surrender charge can apply to the principal investment, the annuity's interest portion or the entire account balance.

During the first few years of the 21st century, many Indexed annuities featured surrender fees that remained in effect for 10 years or more, thereby making these products a poor option for short-term investors. Recently, according to trade reports, these sorts of fees have decreased due in part to regulatory changes in some states that prohibit insurers from selling Indexed annuities with surrender charges lasting more than 10 years. Still, even with such restrictions in place, liquidity ought to be addressed in any serious discussion about Indexed annuities.

Two-Tiered Annuities

A two-tiered indexed annuity will credit interest differently depending on whether the owner agrees to receive an income stream from the insurer or insists on receiving his or her money in a lump sum. These annuities are generally less favorable to those who want a lump sum, even when the lump sum is requested at the end of the contract's term. In other words, in order for the annuity to receive the greatest amount of credited interest, the owner must agree to annuitize and receive an income stream. Since most annuities are never annuitized, logic suggests that two-tiered annuities will be undesirable for most (but not all) consumers.

Regulation of Indexed Annuities

The complex nature of indexed annuities has prompted much attention from state and federal regulators. Among many of these regulators, there is a major concern that consumers don't understand the way interest might be credited to their account or the ways in which interest might be capped.

The combination of insurance-like guarantees and market-dependant crediting methods have even resulted in an extended argument about what an indexed annuity truly is. On one hand, the free guarantees of principal protection make the indexed annuity seem similar to a fixed annuity. Meanwhile, the fact that the actual amount of interest that will be credited to the annuity is not known at the time of purchase (and is influenced by the stock market) makes the indexed annuity seem like a variable product.

The "fixed vs. variable" debate regarding indexed annuities has been important to insurance producers because it relates to licensing. As long as an indexed annuity is considered a type of fixed annuity, an individual can sell it by obtaining a life insurance license. However, if an indexed annuity is considered a kind of variable annuity, the individual would need to also pass a Series 7 exam and become registered with FINRA.

States have an interest in the argument, too. While fixed annuities are regulated primarily by state laws and state insurance departments, sales of variable annuities are also regulated by the federal government via the Securities and Exchange Commission. The states and SEC have each claimed that indexed annuities should be under their jurisdiction, and some courts have had to weigh in on the issue.

A federal appeals court ruled in American Equity Investment Life Insurance Co. v. SEC that there were, indeed, some investment risks associated with indexed annuities. However, according to the court, the government failed to show how federal regulation of indexed annuities would be more efficient or better for competition than state regulation. Accordingly, a set of federal rules that made indexed annuities subject to the federal Securities Act of 1933 was deemed invalid.

The court's ruling was followed by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which allowed most indexed annuities in this country to remain state-regulated insurance products (and not securities) under certain conditions.

Final Thoughts Regarding Indexed Annuities

In summary, indexed annuities are relatively new. Like fixed annuities, they generally guarantee a return of principal and a minimum amount of interest. However, as is the case with variable annuities, the actual returns that are credited to the owner's account can rise and fall depending on market performance. Insurance companies use complicated formulas to credit interest to equity-indexed accounts. When market performance is strong, these formulas can limit what an owner receives.

These relatively new products have the potential to intimidate or confuse everyone from the inexperienced investor to the veteran bank or insurance customer. Even people with a background in insurance or finance might wonder what a certain contract provision really means and whether it will truly help them achieve their financial goals. It is, therefore, very important that you understand these annuities well and not skip over major details.

Chapter 6: Annuity Riders

Insurance riders are optional policy features that may be added to a contract for an additional cost, either at the application stage or after the policy has been issued. In this portion of the text, we will examine a few of the many riders offered by life insurers as an addition to an annuity contract. But please be aware that not all insurance companies offer these mentioned additions, and some insurance companies might include the benefits described here within their basic products.

Riders vs. Waivers

Earlier in this course, you learned about crisis waivers and how they can help someone withdraw most or all of their money from an annuity following a disability, a need for nursing-home care or some other type of serious challenge. Be careful not to confuse these waivers with a rider. Whereas the aforementioned waivers are free and part of a company's standard annuity contract, a rider often requires an additional premium and amends the insurer's standard contract.

Life Insurance Riders

Historically, people have bought life insurance in order to ensure that a dependent or other loved one will not suffer financial hardship after a death. Sometimes, the death benefit—the amount paid to a beneficiary—is helpful because it allows an otherwise independent person (such as a working spouse) to adapt to life without a shared income. More importantly, life insurance can create adequate income for those dependents who either need even longer periods to adjust to a devastating financial reality or might never be able to adapt to such a major change.

Examples of possibly needy beneficiaries might include a stay-at-home spouse who would suddenly need to find a job with competitive pay in order to make ends meet, a child who would need such essentials as food, clothing and a decent education, an elderly parent who would need to hire someone to help with various household tasks or any loved one with special needs.

Life insurance can also help beneficiaries pay specific expenses in either a short-term or long-term capacity. A policy boasting significant benefits could help satisfy a mortgage loan on a family home or free a spouse from other debt obligations. A small policy might be enough to ensure that a low-income family will not need to lose thousands of hard-earned dollars in order to cover the cost of a respectable funeral.

No matter if their child is a few days old or has already spent years in the school system, middle-class parents might want to eventually borrow money from a life insurance policy and create a substantial college fund for a son or daughter, thereby making the policy not just a risk management tool but also an investment.

Some insurance companies have enhanced their annuities' death benefits by pairing them with life insurance riders that cover accidental death. These riders might appeal to consumers because they can significantly enlarge the death benefit if the annuitant or owner dies in an accident and are sometimes cheaper than stand-alone life insurance policies. However, like most other riders, their cost can have a detrimental effect on an owner's account balance. If buyers already have life insurance or can provide for beneficiaries through other means, their need for this coverage might be minimal at best, particularly if the insurer's asking price is high.

Long-Term Care Riders

Long-term care insurance can be used to help pay for custodial care and other assistance that isn't covered by Medicare or other health insurance. Care that is considered "long-term" usually lasts at least 90 days and can be for an elderly person, a chronically ill person or someone who is recovering from a serious accident or disease.

Despite the positive aspects of stand-alone long-term care insurance policies, these products aren't always affordable. Even in cases where premiums for the insurance were initially attractive, many carriers have had to raise their rates over the past few decades.

Instead of having to pay high premiums for coverage that they might never use, some consumers guard against the risk of needing long-term care by adding a rider to their annuity. This kind of rider can either increase the size of an income stream or provide greater liquidity when an owner qualifies for long-term care services.

Insurers offering annuities with riders or waivers for long-term care (LTC) have adjusted their products to reflect changes in care options. In the old days, LTC riders provided financial protection against long stays in skilled nursing facilities or hospitals. Modern add-ons can still serve that purpose, but they can also help people cope with the cost of at-home care. Still, the annuity contract should be examined carefully to ensure that the desired kind of setting (nursing home, private home, etc.) is covered.

In order for the owner or annuitant to receive LTC benefits through a waiver, rider or insurance policy, someone must demonstrate a contractually defined need for care. In general, LTC benefits are given to people who either live with a cognitive impairment (such as Alzheimer's disease) or cannot perform common tasks called "activities of daily living" (ADLs). For LTC benefits to be triggered by an inability to perform ADLs, a person usually must require assistance when doing at least two of the following tasks:

- **Bathing:** The ability to move in or out of a shower or tub, clean oneself, and dry oneself.
- **Dressing:** The ability to put on clothing and any medical accessories, such as leg braces.
- **Eating:** The ability to chew and swallow food and use utensils.
- **Transferring:** The ability to move in and out of beds, cars and chairs.
- **Toileting:** The ability to get to a restroom and perform related, basic personal hygiene.
- **Continence:** The ability to control the bladder and bowels and perform related, basic personal hygiene.

After demonstrating a need for LTC, the owner or annuitant must wait for an "elimination period" to pass. During the elimination period, the person receives no privileges or benefits through the LTC waiver or rider and will need to pay out of pocket for care unless he or she has adequate health insurance. The length of the elimination period will depend on the contract and might be left up to the owner at the time of purchase. Elimination periods for LTC crisis waivers or riders can range anywhere from 30 days to several months.

Eligibility for LTC benefits within an annuity is far from guaranteed, particularly due to the link between people's age and their susceptibility to long-term health problems. Some insurance companies only offer LTC riders and other health-related add-ons to owners or annuitants who have not had major health issues. In these cases, the opportunity to withdraw funds specifically for health reasons might expire as the owner or annuitant grows older.

Financial products that contain LTC benefits must be evaluated and purchased with some caution. Although state governments have adopted minimum benefit triggers and forced LTC insurers to include various other contract provisions within their policies, the laws associated with LTC insurance policies might not apply to LTC crisis waivers or LTC riders within annuities. Unlike long-term care insurance, these waivers and riders generally do not force the insurer to pay directly for anyone's care. Instead, they merely give owners the chance to access or receive more money when long-term care is needed.

Hospice Care

Hospice care is intended for people who are terminally ill. Instead of trying to cure the patient, hospice care focuses on managing a person's symptoms so he or she can cope with a terminal illness as peacefully as possible. It is meant to cover a patient's family members, too, by paying for some non-medical services. In addition to medical treatments and supplies, hospice benefits may include grief counseling and homemaker services. It's usually provided in the patient's own home, but it can sometimes be offered in a hospital or in a special hospice facility.

Depending on the contractual language, a waiver of rider that pertains to a disability or a need for long-term care might also go into effect if hospice care is required. However, before recommending the purchase of a rider specifically for hospice care, a salesperson might want to determine whether the patient would qualify for Medicare coverage. If the person needing hospice care is already covered by Medicare, a hospice-specific rider might be less important or even unnecessary.

To qualify for hospice care under Medicare, you first need to be certified as terminally ill by your doctor and one of the heads of your chosen hospice provider. For Medicare purposes, this means you can't be expected to live longer than another six months. However, you won't be penalized in any way if you end up living longer than expected. Your doctor will need to reevaluate your condition every two or three months and determine if you still meet the six-month requirement.

The Medicare patient's share of hospice expenses is minimal. There's no deductible to satisfy and no copayments or coinsurance fees except as follows:

- Patients are responsible for a copayment of no more than $5 for prescription drugs.
- Patients are responsible for 5 percent of the daily cost for respite care. (Respite care is care from a medical professional that is designed to give a regular caregiver some time off.)

Loan Provisions

Insurance companies commonly allow people to borrow money against a life insurance policy's cash value. This can be a popular feature for owners of permanent life insurance. (Term life insurance, on the other hand, has no cash value and cannot be used to fund a loan.)

Several reasons exist for policyholders to take advantage of an insurance contract's loan features. For example, prospective borrowers are unlikely to be turned down by their insurance company as long as their policies serve as adequate collateral for a loan. Along with this privilege come fewer questions on a loan application and greater overall privacy than a person would receive from a traditional lending institution, such as a bank.

Although the same companies tend to offer permanent life insurance and annuities, the ability to borrow money through an annuity tends to be very limited. In the event that money is needed for any reason, an owner might instead consider utilizing a contract's "free withdrawal" provisions, which typically allow for a 10 percent return of the owner's money.

However, if the owner foresees the ability to eventually repay the withdrawn amount, a loan from the insurance company might be an option. Greater availability of policy loans might be accomplished through a rider.

When loans against an annuity's cash value are possible, they must be approved by the annuity owner. Neither an annuitant nor a beneficiary may borrow money against an annuity's cash value unless the person is also the owner.

Loans made against an annuity's value risk reducing the available benefits for annuitants and beneficiaries if those loans are never repaid. In addition, loans could result in unwanted taxes and IRS penalties under some circumstances.

Riders are also commonly used to provide or enhance various guarantees within a variable annuity. These guarantees are collectively known as "living benefits" and are explained in an earlier chapter of this course.

Chapter 7: California Training and Suitability Standards

California has implemented several insurance rules to help prevent annuities from being sold to people who don't benefit from them. Each applicant for an annuity must be evaluated to determine whether an annuity is truly "suitable" (or appropriate and beneficial) for the consumer.

The state has also enforced special training requirements for practically anyone who wants to sell annuities to the public.

Licensing and Education Requirements

An individual who wishes to sell annuities in California must be properly licensed and complete special training. Individuals selling fixed or indexed annuities must at least have a life insurance license. Individuals selling variable annuities must also pass a Series 7 exam and be registered with FINRA.

Before recommending or selling fixed, variable or indexed annuities, a licensee must complete an eight-hour, state-approved training course. Then, the licensee must complete a state-approved four-hour training course during each subsequent licensing period in which he or she recommends or sells annuities.

This course has been approved for licensees who need to complete the subsequent four hours of training. More information about training can be found in the state's insurance code:

1749.8. (a) Every life agent who sells annuities shall satisfactorily complete eight hours of training prior to soliciting individual consumers in order to sell annuities.

(b) Every life agent who sells annuities shall satisfactorily complete four hours of training prior to each license renewal.

Completion of the eight-hour annuity training required by subdivision

(a) does not satisfy the four-hour annuity training required by this subdivision. For resident licensees, this requirement shall count toward the licensee's continuing education requirement, but may still result in completing more than the minimum number of continuing education hours set forth in this section.

(c) The training required by this section shall be approved by the commissioner and shall consist of topics related to annuities, and

California law, regulations, and requirements related to annuities, prohibited sales practices, the recognition of indicators that a prospective insured may lack the short-term memory or judgment to knowingly purchase an insurance product, and fraudulent and unfair trade practices. Subject matter determined by the commissioner to be primarily intended to promote the sale or marketing of annuities shall not qualify for credit toward the training requirement. Any course or seminar that is disapproved under the provisions of this section shall be presumed invalid for credit toward the training requirement of this section unless it is approved in writing by the commissioner.

(d) The training requirements set forth in this section shall not apply to nonresident agents representing an insurer that is a direct response provider.

For the purposes of this section, "direct response provider" means an insurer that meets each of the following criteria:

(1) The insurer does not initiate telephone contact with insureds or prospective insureds.

(2) Agents of the insurer speak with insureds and prospective

insureds only by telephone, and at the request of the insureds or prospective insureds.

(3) Agents of the insurer are assigned to speak with insureds or prospective insureds on a random basis, when contacted.

(4) Agents of the insurer are salaried and do not receive commissions for sales or referrals.

Suitability Information and Checklists for Purchases, Replacements and Exchanges

Before an annuity is purchased, the insurer or the insurance producer needs to collect the buyer's "suitability" information. The producer and the insurer are supposed to use the suitability information to determine whether the annuity is appropriate for the person. If a prospect refuses to provide the suitability information, the refusal must be documented in writing at the time of sale.

Suitability information includes the following details about the potential purchaser:

- Age.
- Annual income.
- Financial situation and needs.
- Financial experience.
- Financial objectives.
- Intended use of the annuity.
- Financial time horizon.
- Existing assets.
- Liquidity needs.
- Liquid net worth.
- Risk tolerance.
- Tax status.
- Whether or not the consumer has a reverse mortgage.

When making a recommendation to purchase or exchange a particular annuity, the producer or insurance company also needs to reasonably believe that the following statements are true:

- The consumer is aware of the various features of the annuity (including surrender charges, fees, tax penalties, market risks, limits on returns, etc.).
- Certain features of the annuity (such as tax deferral, death benefits or living benefits) would be beneficial to the consumer.
- The annuity, the allocation of funds within it, and any riders attached to it are suitable for the consumer based on the collected suitability information.

If an annuity is being exchanged or replaced, the producer has a few extra factors to consider, such as:

- Will the consumer face a surrender charge, lose benefits or need to pay more fees?
- Will the new annuity be an improvement over the one that is exchanged or replaced?
- Has the consumer already exchanged or replaced an annuity (especially within the past five years)?

At the time of sale, the producer or insurer needs to make a record of any annuity-related recommendations. If the consumer decides to enter into an annuity transaction despite recommendations to the contrary, signed acknowledgement must be obtained from that person. All information that is used to make a recommendation to a consumer must be kept for at least seven years.

FINRA-registered entities generally can comply with the state's suitability requirements by following FINRA Rule 2330 or any rules that replace Rule 2330. However, they must still be sure to consider the consumer's income and the intended use of the annuity when determining suitability.

Insurer Supervision

Insurance companies offering annuities need to incorporate the rules for product suitability into their producer training materials. Each company is required to explain all of their annuities' important features to insurance producers. An insurer also must create a system to ensure that producers' recommendations are reviewed and are appropriate. The effectiveness of supervision systems and procedures are to be evaluated every year in a report to senior management.

Note that the requirement to incorporate annuities into producer training is separate from the eight-hour and four-hour education requirements mentioned elsewhere in this chapter.

Additional information about insurer responsibilities can be found in the state's insurance code:

(D) The insurer shall maintain procedures for review of each recommendation prior to issuance of an annuity that are designed to ensure that there is a reasonable basis to determine that a recommendation is suitable. The review procedures may apply a screening system for the purpose of identifying selected transactions for additional review and may be accomplished electronically or through other means, including, but not limited to, physical review. An electronic or other system may be designed to require additional review only of those transactions identified for additional review by the selection criteria.

(E) The insurer shall maintain reasonable procedures to detect recommendations that are not suitable. This may include, but is not limited to, confirmation of consumer suitability information, systematic customer surveys, interviews, confirmation letters, and programs of internal monitoring. Nothing in this subparagraph prevents an insurer from complying with this subparagraph by applying sampling procedures or by confirming suitability information after issuance or delivery of the annuity.

Chapter 8: Penalties

There are several important insurance laws and rules that California annuity salespersons must understand. However, the Department of Insurance has identified a few specific requirements that licensees should be especially aware of. Some of the most serious forms of misconduct are covered in this chapter, along with some relevant sections of the state's insurance code.

Misrepresentation

It is illegal to knowingly misrepresent the features of an annuity. Individuals or insurers who engage in this behavior, either to make a sale or to encourage the replacement of an existing annuity, might face significant fines (perhaps up to $25,000) and/or imprisonment. Administrative penalties can be imposed for violations of the insurance code. The amount of the administrative penalty will depend on the licensee's past history of compliance.

The Department of Insurance may suspend someone's insurance license (pending the results of a hearing) if harm to a senior citizen is likely to occur. The department may also order that annuity contracts issued in violation of state law be rescinded:

780. An insurer or officer or agent thereof, or an insurance broker or solicitor shall not cause or permit to be issued, circulated or used, any statement that is known, or should have been known, to be a misrepresentation of the following:

(a) The terms of a policy issued by the insurer or sought to be negotiated by the person making or permitting the misrepresentation.

(b) The benefits or privileges promised thereunder.

(c) The future dividends payable thereunder.

781. (a) A person shall not make any statement that is known, or should have been known, to be a misrepresentation (1) to any other person for the purpose of inducing, or tending to induce, such other person either to take out a policy of insurance, or to refuse to accept a policy issued upon an application therefor and instead take out any policy in another insurer, or (2) to a policyholder in any insurer for the purpose of inducing or tending to induce him or her to lapse, forfeit or surrender his or her insurance therein.

(b) A person shall not make any representation or comparison of insurers or policies to an insured which is misleading, for the purpose of inducing or tending to induce him or her to lapse, forfeit, change or surrender his or her insurance, whether on a temporary or permanent plan.

782. Any person who violates the provisions of Section 780 or 781 is punishable by a fine not exceeding twenty-five thousand dollars ($25,000), or in a case in which the loss of the victim exceeds ten thousand dollars ($10,000), by a fine not exceeding three times the amount of the loss suffered by the victim, by imprisonment in a county jail for a period not to exceed one year, or by both a fine and imprisonment. Restitution to the victim ordered pursuant to Section 1202.4 of the Penal Code shall be satisfied before any fine imposed by this section is collected.

789.3. (a) Any broker, agent, or other person or other entity engaged in the transactions of insurance, other than an insurer, who violates this article is liable for an administrative penalty of no less than one thousand dollars ($1,000) for the first violation.

(b) Any broker, agent, other person, or other entity engaged in the business of insurance, other than an insurer, who engages in practices prohibited by this article a second or subsequent time or who commits a knowing violation of this article, is liable for an administrative penalty of no less than five thousand dollars ($5,000) and no more than fifty thousand dollars ($50,000) for each violation.

(c) If the commissioner brings an action against a licensee pursuant to subdivision (a) or (b) and determines that the licensee may reasonably be expected to cause significant harm to seniors, the commissioner may suspend his or her license pending the outcome of the hearing described in subdivision (c) of Section 789.

(d) Any insurer who violates this article is liable for an administrative penalty of ten thousand dollars ($10,000) for the first violation.

(e) Any insurer who violates this article with a frequency as to indicate a general business practice or commits a knowing violation of this article, is liable for an administrative penalty of no less than thirty thousand dollars ($30,000) and no more than three hundred thousand dollars ($300,000) for each violation.

(f) The commissioner may require rescission of any contract found to have been marketed, offered, or issued in violation of this article.

Hearings Involving Senior Sales Abuse

In general, hearings involving alleged misrepresentation to senior citizens will be held within 90 days. Specifics, including cases in which a hearing might be delayed, appear in the state's insurance code.

Administrative Penalties For Replacements and Exchanges

Alleged unethical conduct in the exchanging of annuities has caught the eye of regulators in recent years. Some observers believe that the opportunity for decent commissions on annuity exchanges has successfully tempted insurance producers to avoid telling consumers about fresh surrender charges. A few financial institutions, including some insurance companies, have conducted self-policing and have even eliminated or restructured commissions for salespersons who handle annuity replacements and exchanges.

In California, insurance producers need to provide disclosures and obtain certain signatures before they can replace someone's annuity. At the time this course was being written, the relevant rules for producers were found in Section 1509 of the state's insurance code. Although this portion of the code has not been reproduced here, be aware that the penalties for non-compliance are essentially equal to those mentioned in the "Misrepresentation" section mentioned earlier in this chapter.

The document "Attachment III" has been provided by the California Department of Insurance as an additional reference and appears at the end of your course. However, please be aware that this state-provided document does not include various (relatively minor) changes that are scheduled to be implemented on July 1, 2015.

Conclusion

This course has provided a review of annuity basics and attempted to engage you in an in-depth study of how fixed, variable and indexed annuities are structured. Due to constant changes in the financial world, this material can't touch on every detail that might exist in a specific annuity contract. But the presented information should help you broaden your perspective and make it easier to determine what consumers need to know.

Appendix: Attachment III From the California Department of Insurance

Penalties Defined (Section 782, 786, 789.3, 1738.5, 10509.910 et seq. of the CIC)

California Insurance Code	Violation	Penalty
Section 782 Establishes penalties for violation of section 780 and section 781	**Section 780 -** Prohibited Misrepresentation **Section 781 -** Twisting (see page 3 for actual language)	Punishable by fine not to exceed $25,000, or if victim loss exceeds $10,000, the fine not to exceed 3 times the loss suffered by the victim, by imprisonment not to exceed 1 year or by both a fine and imprisonment Restitution to victim pursuant to Section 1202.4 of the Penal Code shall be satisfied before any fine imposed by this section is collected
Section 786 Provides for an examination period of 30 days after the receipt of the policy or certificate for purposes of review of the contract	no violations or penalties cited in this section (see page 3 for actual language)	
Section 789.3 Administrative penalties; amounts; rescission of contracts	**Section 789.3:** (a) and (b) by broker, agent, or other person engaged in the transactions of insurance other than an insurer (see page 4 for actual language) (d) and (e) by insurer	789.3(a) minimum $1,000 for the first violation 789.3(b) minimum $5,000 and no more than $50,000 each subsequent violation 789.3(c) Commissioner may suspend or revoke license 789.3(d) $10,000 for the first violation 789.3(e) minimum $30,000 and no more than $300,000 each violation thereafter 789.3(f) Commissioner may require rescission of contract

Section 1668.1 Acts that constitute cause to suspend re revoke any permanent license issued pursuant to this chapter	no violations or penalties cited in this section (see page 5 for actual language)	
Section 1738.5 A proceeding held pursuant to section 1668, 1668.5, 1738, 1739, or 12921.8	no violations or penalties cited in this section (see page 5 for actual language)	
Section 10509.9 Administrative penalties:	**Section 10509.9:** (a) and (b) by any agent or other person or entity engaged in the business of insurance other than an insurer (see page 6 for actual language) (c) and (d) by insurer (see page 6 for actual language) (e) by person or entity after a hearing (see page 6 for actual language)	10509.9 (a) $1,000 for the first violation 10509.9 (b) minimum $5,000 and no more than $50,000 each subsequent violation 10509.9 (c) $10,000 for the first violation 10509.9 (d) minimum $30,000 and no more than $300,000 each violation thereafter 10509.9 (e) the Commissioner may suspend or revoke the license
Section 10509.916 **Insurer responsibilities**	violations and penalties to be determined (see page 7 for actual language)	

Current Law

This list includes the statutes stated in SB 618 and the penalty statute from AB 689 (Chapter 295, Statutes of 2011) Insurance: annuity transactions, Section 10509.914 of the California Insurance Code, which will take effect on January 1, 2012.

Section 780: An insurer or officer or agent thereof, or an insurance broker or solicitor shall not cause or permit to be issued, circulated or used, any statement that is known, or should have been known, to be a misrepresentation of the following:

(a) The terms of a policy issued by the insurer or sought to be negotiated by the person making or permitting the misrepresentation.
(b) The benefits or privileges promised thereunder.
(c) The future dividends payable thereunder.

Section 781: (a) A person shall not make any statement that is known, or should have been known, to be a misrepresentation (1) to any other person for the purpose of inducing, or tending to induce, such other person either to take out a policy of insurance, or to refuse to accept a policy issued upon an application therefor and instead take out any policy in another insurer, or (2) to a policyholder in any insurer for the purpose of inducing or tending to induce him or her to lapse, forfeit or surrender his or her insurance therein.
(b)A person shall not make any representation or comparison of insurers or policies to an insured which is misleading, for the purpose of inducing or tending to induce him or her to lapse, forfeit, change or surrender his or her insurance, whether on a temporary or permanent plan.

Section 782: Any person who violates the provisions of Section 780 or 781 is punishable by a fine not exceeding twenty-five thousand dollars ($25,000), or in a case in which the loss of the victim exceeds ten thousand dollars ($10,000), by a fine not exceeding three times the amount of the loss suffered by the victim, by imprisonment in a county jail for a period not to exceed one year, or by both a fine and imprisonment. Restitution to the victim ordered pursuant to Section 1202.4 of the Penal Code shall be satisfied before any fine imposed by this section is collected.

Section 786: All disability **insurance** and life **insurance** policies and certificates offered for sale to individuals age 65 or older in California shall provide an examination period of 30 days after the receipt of the policy or certificate for purposes of review of the contract, at which time the applicant may return the contract. The return shall void the policy or certificate from the beginning, and the parties shall be in the same position as if no contract had been issued. All premiums paid and any policy or membership fee shall be fully refunded to the applicant by the insurer or entity in a timely manner.
a) For the purposes of this section a timely manner shall be no later than 30 days after the insurer or entity issuing the policy or certificate receives the returned policy or certificate.

b) If the insurer or entity issuing the policy or certificate fails to refund all of the premiums paid, in a timely manner, then the applicant shall receive interest on the paid premium at the legal rate of interest on judgments as provided in Section 685.010 of the **Code** of Civil Procedure. The interest shall be paid from the date the insurer or entity received the returned policy or certificate.

(c) Each policy or certificate shall have a notice prominently printed in no less than 10-point uppercase type, on the cover page of the policy or certificate and the outline of coverage, stating that the applicant has the right to return the policy or certificate within 30 days after its receipt via regular mail, and to have the full premium refunded.

(d) In the event of any conflict between this section and Section 10127.10 with respect to life **insurance**, the provisions of Section 10127.10 shall prevail.

Section 789.3: (a) Any broker, agent, or other person or other entity engaged in the transactions of **insurance**, other than an insurer, who violates this article is liable for an administrative penalty of no less than one thousand dollars ($1,000) for the first violation.
(b) Any broker, agent, other person, or other entity engaged in the business of **insurance**, other than an insurer, who engages in practices prohibited by this article a second or subsequent time or who commits

a knowing violation of this article, is liable for an administrative penalty of no less than five thousand dollars ($5,000) and no more than fifty thousand dollars ($50,000) for each violation.

(c) If the commissioner brings an action against a licensee pursuant to subdivision (a) or (b) and determines that the licensee may reasonably be expected to cause significant harm to seniors, the commissioner may suspend his or her license pending the outcome of the hearing described in subdivision (c) of Section 789.

(d) Any insurer who violates this article is liable for an administrative penalty of ten thousand dollars ($10,000) for the first violation.

(e) Any insurer who violates this article with a frequency as to indicate a general business practice or commits a knowing violation of this article, is liable for an administrative penalty of no less than thirty thousand dollars ($30,000) and no more than three hundred thousand dollars ($300,000) for each violation.

(f) The commissioner may require rescission of any contract found to have been marketed, offered, or issued in violation of this article.

Section 1668.1: (a) The licensee has induced a client, whether directly or indirectly, to cosign or make a loan, make an investment, make a gift, including a testamentary gift, or provide any future benefit through a right of survivorship to the licensee, or to any of the persons listed in subdivision (e).
(b) The licensee has induced a client, whether directly or indirectly, to make the licensee or any of the persons listed in subdivision (e) a beneficiary under the terms of any intervivos or testamentary trust or the owner or beneficiary of a life **insurance** policy or an annuity policy.
(c) The licensee has induced a client, whether directly or indirectly, to make the licensee, or a person who is registered as a domestic partner of the licensee, or is related to the licensee by birth, marriage, or adoption, a trustee under the terms of any intervivos or testamentary trust. However, if the licensee is also licensed as an attorney in any state, the licensee may be made a trustee under the terms of any intervivos or testamentary trust, provided that the licensee is not a seller of **insurance** to the trustor of the trust.

(d) The licensee, who has a power of attorney for a client has sold to the client or has used the power of attorney to purchase an **insurance** product on behalf of the client for which the licensee has received a commission.

(e) Subdivisions (a) and (b) shall also apply if the licensee induces the client to provide the benefits in those subdivisions to the following people:

(1) A person who is related to the licensee by birth, marriage, or adoption.

(2) A person who is a friend or business acquaintance of the licensee.

(3) A person who is registered as a domestic partner of the licensee.

(f) This section shall not apply to situations in which the client is:

(1) A person related to the licensee by birth, marriage, or adoption.

(2) A person who is registered as a domestic partner of the licensee.

Section 1738.5: A proceeding held pursuant to Section 1668, 1668.5, 1738, 1739, or 12921.8 that involves allegations of misconduct perpetrated against a person age 65 or over shall be held within 90 days after receipt by the department of the notice of defense, unless a continuance of the hearing is granted by the department or the administrative law judge. When the matter has been set for hearing, only the administrative law judge may grant a continuance of the hearing. The administrative law judge may, but need not, grant a continuance of the hearing, only upon finding the existence of one or more of the following:
(a) The death or incapacitating illness of a party, a representative or attorney of a party, a witness to an essential fact, or of the parent, child, or member of the household of any of these persons, when it is not feasible to substitute another representative, attorney, or witness because of the proximity of the hearing date.

(b) Lack of notice of hearing as provided in Section 11509 of the Government Code.

(c) A material change in the status of the case where a change in the parties or pleadings requires postponement, or an executed settlement or stipulated findings of fact obviate the need for hearing. A partial amendment of the pleadings shall not be good cause for continuance to the extent that the un-amended portion of the pleadings is ready to be heard.

(d) A stipulation for continuance signed by all parties, or their authorized representatives, that is communicated with the request for continuance to the administrative law judge no later than 25 business days before the hearing.

(e) The substitution of the representative or attorney of a party upon showing that the substitution is required.

(f) The unavailability of a party, representative, or attorney of a party, or witness to an essential fact, due to a conflicting and required appearance in a judicial matter if, when the hearing date was set, the person did not know and could neither anticipate nor at any time avoid the conflict, and the conflict, with the request for continuance, is immediately communicated to the administrative law judge.

(g) The unavailability of a party, a representative or attorney of a party, or a material witness due to an unavoidable emergency.

(h) Failure by a party to comply with a timely discovery request if the continuance request is made by the party who requested the discovery.

Section 10509.9: (a) Any agent or other person or entity engaged in the business of **insurance**, other than an insurer, who violates this article is liable for an administrative penalty of no less than one thousand dollars ($1,000) for the first violation.
(b) Any agent or other person or entity engaged in the business of **insurance**, other than an insurer, who engages in practices prohibited by this chapter a second or subsequent time or who commits a knowing violation of this article, is liable for an administrative penalty of no less than five thousand dollars ($5,000) and no more than fifty thousand dollars ($50,000) for each violation.

(c) Any insurer who violates this article is liable for an administrative penalty of ten thousand dollars ($10,000) for the first violation.

(d) Any insurer who violates this article with a frequency as to indicate a general business practice or commits a knowing violation of this article, is liable for an administrative penalty of no less than thirty thousand dollars ($30,000) and no more than three hundred thousand dollars ($300,000) for each violation.

(e) After a hearing conducted in accordance with Chapter 4.5 (commencing with Section 11400) and Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, the commissioner may suspend or revoke the license of any person or entity that violates this article.

(f) Nothing in this section shall be deemed to affect any other authority provided by law to the commissioner.

Section 10509.916: (a) An insurer is responsible for compliance with this article. If a violation occurs, either because of the action or inaction of the insurer or its insurance producer, the commissioner may, in addition to any other available penalties, remedies, or administrative actions, order any or all of the following:

(1) An insurer to take reasonably appropriate corrective action for any consumer harmed by the insurer's, or by its insurance producer's, violation of this article.

(2) A managing general agent or an insurance producer to take reasonably appropriate corrective action for any consumer harmed by the insurance producer's violation of this article.
(3) Penalties and sanctions pursuant to Section 10509.9. For purposes of Section 10509.9, this article shall be deemed to be part of Article 8 (commencing with Section 10509), and the commissioner may in a single enforcement action seek penalties for a first and a second or subsequent violation.

INSTRUCTIONS FOR OPEN-BOOK EXAMINATION

To receive continuing education credit for this course, you must:

1. Read this book.
2. Enroll with our school.
3. Successfully complete the corresponding open-book exam.

To enroll:

ONLINE:

Visit our website: BookmarkEducation.com

MAIL or FAX:

1. An enrollment form is included on the next page and on the back of the book.
2. Remove or photocopy the enrollment form.
3. Complete and return the enrollment form to Bookmark Education.

To Complete Your Exam(s):

Access to exams prior to enrollment is not permitted. Upon enrollment, you will receive a username and password to access your online exam. Online exams will be graded instantly. Paper exams are also available.

PLEASE CONTACT US WITH ANY QUESTIONS!

BOOKMARKEDUCATION

BookmarkEducation.com
(800) 716-4113

CALIFORNIA INSURANCE EDUCATION DIVISION

4 Credit Hours – ONLY $29

IT'S EASY TO EARN CONTINUING EDUCATION CREDIT:

1. **Read this book.**
2. **Enroll online *OR* complete and return the form below.**
3. **Upon enrollment, you will be provided a username and password to complete the exam online* at our website. Exams are scored instantly.**

   *Paper-based exams are also available upon request.

Don't Delay, Enroll Today

PLEASE SEE THE INSIDE COVER OF THIS BOOK FOR ANSWERS TO MANY FREQUENTLY ASKED QUESTIONS

Online: BookmarkEducation.com
Phone: (800) 716-4113
Fax: (888) 500-0108
Mail: Bookmark Education, 6203 W. Howard Street, Niles, IL 60714

STUDENT: (Please Print)

NAME ______________________________

ADDRESS ______________________ UNIT OR APT. # __________

CITY ______________ STATE _____ ZIP ________ COUNTY __________

TELEPHONE (Home) ______________ (Work) ______________

E-MAIL ADDRESS ______________ LICENSE EXPIRATION DATE _____ /_____ /_____

PRODUCER LICENSE NUMBER ______________________________

REGISTRATION: ❑ $29.00 - 4-HOUR ANNUITY TRAINING - THIRD EDITION

PAYMENT: *(Choose One)*

❑ Check or Money Order made payable to BOOKMARK EDUCATION

❑ MasterCard ❑ VISA ❑ Discover ❑ American Express

CARD # ______________ EXPIRATION _____ /_________ CARD VERIFICATION # ______

NAME ON CARD ______________ SIGNATURE ______________

Earn Your Entire Continuing Education Requirement With Our Convenient Self-Study Courses.

Visit Our Website or Call Us Today…

BOOKMARKEDUCATION

CALIFORNIA INSURANCE EDUCATION DIVISION

4 Credit Hours – ONLY $29

IT'S EASY TO EARN CONTINUING EDUCATION CREDIT:

1. **Read this book.**
2. **Enroll online *OR* complete and return the form below.**
3. **Upon enrollment, you will be provided a username and password to complete the exam online* at our website. Exams are scored instantly.**

   *Paper-based exams are also available upon request.

Don't Delay, Enroll Today

PLEASE SEE THE INSIDE COVER OF THIS BOOK FOR ANSWERS TO MANY FREQUENTLY ASKED QUESTIONS

Online: BookmarkEducation.com
Phone: (800) 716-4113
Fax: (888) 500-0108
Mail: Bookmark Education, 6203 W. Howard Street, Niles, IL 60714

STUDENT: (Please Print)

NAME ______________________________

ADDRESS ______________________________ UNIT OR APT. # __________

CITY ____________________ STATE ______ ZIP __________ COUNTY __________

TELEPHONE (Home) ____________________ (Work) ____________________

E-MAIL ADDRESS ____________________ LICENSE EXPIRATION DATE ______ /______ /______

PRODUCER LICENSE NUMBER ______________________________

REGISTRATION: ❑ $29.00 - 4-HOUR ANNUITY TRAINING - THIRD EDITION

PAYMENT: *(Choose One)*

❑ Check or Money Order made payable to BOOKMARK EDUCATION

❑ MasterCard ❑ VISA ❑ Discover ❑ American Express

CARD # ____________________ EXPIRATION ______ /__________ CARD VERIFICATION # ________

NAME ON CARD ____________________ SIGNATURE ____________________

Earn Your Entire Continuing Education Requirement With Our Convenient Self-Study Courses.

Visit Our Website or Call Us Today…